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FEDERAL SECURITY AGENCY
WASHINGTON

OFFICE OF
THE ADMINISTRATOR

February 21, 1940.

Dear Henrietta:

These are the letters from Dr. Louis L. Williams, Jr., head of the commission to China, about which we spoke the other night.

Bruce Mayne, the man who was most anxious to go has had to come home on account of illness. He is on his way back now and probably will have even more interesting things to tell.

You need not return these copies, and you may tell the Secretary we will send others from time to time.

Affectionately,



Mrs. Henrietta S. Klotz,
Assistant to the Secretary,
Department of the Treasury,
Washington, D. C.

Enclosures.

G
O
P
I

2

Chungking, China
11-29-39

Dear Dr. Parran:

I have radioed you our movements and a sketch of our plans as they took shape but have refrained from writing as there was nothing definite to report. Things are somewhat clearer now.

Our greatest difficulty was in getting the equipment into Kunming. And equipment here is unbelievably scarce. Howard Smith met us at HongKong and his advice was valuable. Information there from the Consul General, Mr. Southerd, indicated that much difficulty could be expected from the French Colonials in Indo China. This the French Consul also indicated. Therefore I suggested that Howard come as far as Hanoi as he had a number of contacts there and it was not known that Mr. Reed (our Consular representative in Saigon) had established a Hanoi office. We were fortunate in having Howard as our troubles began when the boat docked at Hoiphong. Howard found a friend who cleared our personal baggage and got the equipment safely into customs. We went to Hanoi (the capitol) and found Mr. Reed who cleared us with the customs - and it took two more days to get news of this clearance down through the multitudinous officials until the goods actually were freed. It then developed that the train from Hanoi connected (15 minutes) with that from Hoiphong and we must wedge nearly a ton on board as baggage! So I trucked it to Hanoi late at night and fought it on board in the morning. And it was a fight. Their system is to charge it all as excess baggage (except our bags 1st class) on 4th class, but one must find a gang of coolies and do it oneself. Also, they are not responsible and baggage must be guarded, unloaded each of two night, stored, reloaded in the morning and watched through 241 tunnels. It is a recognized custom to grab duffel and heave it out a window near the end of a tunnel to a confederate at a strategic point - and the cars are not lighted. So I contracted with the China Travel Bureau to get it and us through, and it was a rare experience.

Once we reached China at Ho Kow we were met by Dr. Yen's representative and things were smoother. In Kunming Dr. Yen met us as did Drs. Robertson and Dorrolle of the League of Nations and Mr. Paul Meyer, the Consul General for the United States. During the next week we met and discussed plans with the Governor of the Province, General Ling and all of his department heads and here in Chungking with the Premier and Chief of Finance, Dr. Kung, as well as a brief presentation and greeting by the Generalissimo. The most profitable discussion here was with Madam Chiang Kai-shek, who has a quick and keen mind and who is very interested. Of course Dr. Yen is heart and soul with us, but is (as Balfour told me in Shanghai) just commencing to get malaria business under way. He has formed an Anti-Malaria

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Commission in Yunan composed of 5 Yunanese and 4 Central Government. The Chairman is a very intelligent industrialist, Mr. Mao (pronounced "maow" as in cat) who has developed a great interest in malaria control for the entire province. He is the strong man and his presence augurs well for the general program.

In Yunan the extent of malaria and its vectors (*A. minimus*, *A. A. hyrcanus sinensis*, *A. culicifacies*, and *A. lindsayii*) are rather well known and it is estimated that 500,000 people in the south and western portions of the Province are seriously affected. Neither Balfour nor Yen have defined the method of attack except the general provisions of the 5 year program which budgets a research bureau (5 days by chair from any point of access - Balfour is concerned -), a number of health stations, and a large quantity of quinine.

\$1,826,000 in National currency has been appropriated but cannot be spent until Mr. Mao approves. He is to some extent enthusiastic but he's a banker and isn't going to spend funds until he knows what is to come of it. I therefore pointed out to him that the problem on the road was an emergency which should be met immediately and fully by mosquito control at the strategic towns and labor camps - for in the wet season multiple land slides close the road. But, that the general provincial problem was a threefold one of death rate, epidemics, and lastly, a general endemic rate which was retarding the development of the people and industry. The first problem can be met only with quinine, not stored in Kunming, but made available to those who were actively sick. Mao has undertaken to set up distribution centers through the 80 cooperatives he has organized among the more industrial centers (for other purposes) and through them into the rural areas and has this week ordered the first 1-1/2 ton of quinine. After meeting the death rate problem it is proposed that the research organization shall define the epidemic centers and attempt their control through treatment, screening, and some mosquito control; and let general mosquito control be a later development. The main thing is that they have started and are now under way. It is interesting to note that the Dutch in Java have today agreed to let the Chinese Government and the Yunan Provincial Government have quinine at a rate well below the market on the promise that, if sold, it would not be at a profit. Dr. Yen took part in discussions of the above program and it is his program. Balfour came through day before yesterday and seemed well pleased with the way things shaped up.

Dr. Yen has apparently used our coming as a lever to prise an extra appropriation designed to defray the physical cost of our transportation, housing and employment of young doctors to learn malaria control and then go into his department and the Provincial

Department as malaria control workers. These men will be our interpreters. Later other members of the force will join us for training, expenses to be borne by Dr. Yen's appropriation. This releases a considerable sum from our allotment and I propose to utilize it in initiating Anopheline control at at least one point on the western end of the Burman Highway. I should like to do this for two primary reasons: 1st, to leave any real good behind us, actual control must be under way; 2nd, to train young men it is necessary to have a control job under way. In addition, I believe the best method of research is to commence a job and find out if the proposed methods will work in any new locality.

Mongsih (near Burma) has been suggested and if it strikes me as a good place we'll set up the field laboratory there and perhaps do the control work there also. In this tentative plan I've suggested that their research laboratory be also set up in conjunction with ours as a temporary location but continued there for 2 years till the Railroad is operating at the proposed place now 5 days from nowhere. This is stewing with some signs that it may bear fruit.

In addition to the above, Dr. Yen has secured permission from General Ling, to detach the Provincial Health Officer for 3 months and have him accompany us and learn malaria control. He is Dr. H. Y. Yao, a D.P.H. from Hopkins and a very capable young man. He is now organizing the expedition, adding whatever seems necessary to our equipment and getting the car and trucks. The latter can be done only through government for it is almost impossible for a private citizen to own a car as all gas must come through arrangement with government. After a 50 gallon drum of gas lands at Hoiphong it costs \$100 to get it to Kunming and only government does it.

Their spirit here is fine. Medical schools have been bombed out of existence further east, so they moved to Kunming (10 of them) set up mud and thatch halls and dormitories, and are busily engaged in enthusiastically carrying on. Dr. F. F. Taing had to move the National Epidemic Bureau to Kunming. This Bureau makes nearly all of the Army's and all China's typhoid inoculation, smallpox vaccine, cholera serum, anti-meningococcus serum and toxin antitoxin. His equipment, except culturis, are all held up en route and have been for months. He's set-up a laboratory with old kerosene tins, beer bottles, reused agar, and an old asthmatic boiler and is turning out a clean product day and night in most amazing fashion. I think even Dick Harrison would license him. My hat is off to these people for their wonderful spirit.

We've been received with great cordiality and have been made to feel that our coming is really appreciated and that full advantage is to be taken of it. Also, the Burma Road is assuming greater significance as the Japs last week took Nanning and thus cut the only motor road from Indo China and may cause discontinuance of the Hanoi Kunming R. R. This would leave only the Burma Road and the long road from Russia.

- 4 -

Please express to the Department of State our appreciation of the helpfulness of Mr. Southard in Hongkong and Mr. Reed in Hanoi; and particularly for the very material and enthusiastic help from Mr. Paul Meyer, our Counsel General at Kunming. He smoothed our path in many ways and has managed a financial set up so that we can draw funds in the field yet keep all moneys in U. S. funds and thus not risk the losses of a constantly changing rate of exchange. All of us are in good health and will be on the road on December 3rd or 4th. We go with the cars rather than fly. Gasoline is too expensive to permit an extra round trip of a car, therefore we will omit flying to Lashio. From Lashio I'll run down to Rangoon and see what our British friends are doing on their section of road and also report to our Consul there.

If you approve the general plan I've outlined, I should appreciate a radio from you to that effect. I suggest that lacking a later address you send it to the consulate at Kunming - they will forward all letters and cables and charge our account if necessary.

With best regards to you and my friends in the Bureau, I am

Sincerely,

Louis L. Williams, Jr. (signed)

Senior Surgeon

COPY

c/o American Consulate
Rangoon, Burma
January 8, 1940

My dear Dr. Farran -

I have established headquarters at Chefang on the road 48 kilometers below Mangshih and about 40 kms above the border. Chefang is near the head of a valley bordered by high mountains, population of city about 2,500 and of valley about 15,000. Chefang is the worst malaria place on the road and so control here will be the best kind of demonstration. Spleen rates now are 80% and I'm sure in the rains the rate is 100% - a hyper-endemic center. There are streams, hill side seepages, and paddy fields in and near the town and throughout the valley. All types of breeding place to study and work on. The rate at Mangshih was 40%. Further east and at even higher altitudes they were 19%; 8% and 4%.

The Provincial health officer Dr. H. Y. Yao is with us and will remain. His entomologist is here and three young doctors and a technician. Later his (and Dr. Yen's) Parasitologist (Dr. Y. T. Yao) will join us and establish his temporary research laboratory in ours. I hope they may make it permanent. At present he has no equipment - and it is hard to get into the country. I have suggested to Dr. Balfour (Rockefeller, Far East, at Shanghai) that when Dr. Sweet arrives he visit us with a view to pick up where we leave off. We can and will do dry season control but an experienced man should be here to direct during the first wet season. This is somewhat in line with our Shanghai and later Kunning discussions. We have secured a compound one side of which has two floors. All can sleep and live on the ground floor and use the second as a lab. This is being provided by the Chinese Government and the Sawbwa or local chief (this is a Shan section). He is well educated (though not English) man of strong character who holds the high, middle, and low justice for all in sight and owns all the country side. He has sent out the word that all must submit to what we do not matter how crazy. For a week we were followed everywhere by a tall, silent, hillman with an ancient blunderbuss - and I still think he was a guard of honor and protection supplied till the wilder tribes become used to us. Thru the Sawbwa's secretary I secured a Chinese speaking Shan ex-school master as an interpreter. He's very efficient but I regret the lack of sound movie apparatus to preserve a few feet of one of us thru a Chinese doctor and Shan schoolmaster attempting to get a medical history of a young Shan from his black-toothed, red-painted, lipped, beattle nut chewing grand-mother; with the vociferous aid of the native population.

7

Transportation unexpectedly became an acute problem. All was well arranged, but the loss of Nanning out the road over which cars came in and most of the arrangements had to be replaced inadequately by borrowed autos and not enough. I was compelled to purchase an old Ford coupe - only car to be bought in Kunming - and four of the party came in it over the road. And that road was not built for overloaded light cars. Extensive repairs put it back in running order but the two lorries had to be taken apart and one built from the two. Hence the necessity of buying another truck here in Rangoon. In Rangoon I've been able to complete needed equipment and have secured a small quantity of "malarial" and paris green and ordered more. This we must have this season for the job is a demonstration and cannot be permitted to fail. With paris green we can meet any emergency and catch up later with permanent work and so teach confidence to the young men. On the 10th we go back and probably will not come out until the end. News from us will be slow as we must be opportunists in finding someone coming out who will carry a letter for local posting often taken 30 days. Mail reaches us if addressed c/o Drs. S. T. Ting and C. Jung Sun

Southwestern Clinic

Lashio, N.S.S., Burma.

Wires should be sent to Consul at Kunming to deliver to Provincial Health Administration who can forward thru Southwestern Transport.

In addition to control work at Chefang, we will probably do one at Mangshih. Also, we are completing a detailed survey at Loiwing (8 hours away) which is the site of the Central Aircraft Corporation. It is west of us and just at the border. Everyone there has malaria now. There is an American doctor in charge of the hospital and sanitation, eager to control malaria. They are financing the work and one or two of us go over every once in a while to give direction to their efforts. This was requested in Chungking, for this is the factory that was moved eleven hundred miles by coolies. They assemble planes and are to make them (other than engines). The assembly line will turn out the first in about twelve days and then at least one a week and work up to one a day - if they control malaria. But on Xmas Day nearly all were sick, including the General Manager. We've instituted proper treatment and their situation should be under control in a few weeks.

I've told you of the great assistance we received from our Kunming Consul, Mr. Paul Meyer; our treatment at the hands of Mr. Brady, the Rangoon Consul has been no less and his able and cheerful assistance has helped me.

Dr. Bush has taken hold nicely and is carrying on at Chefang these few days of my absence. He learns quickly and is an enthusiastic worker. Perhaps a bit too temperamental for a director but a dependable field worker with many original ideas. He works very well with the Chinese doctors.

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In Rangoon I've talked over the public health situation with the director Maj. Davidson and with the man at the Harcourt Butler Institute. They confirm what I picked up in North Burma, that plague is constantly endemic in Rangoon, more so in Mandalay, and that it is epizootic among the rats in many places up to Namkham which is between Chefang and Loiwing and not over 6 miles from China. Opposite Namkham China is uninhabited so no human cases are found. I suspect field rats are infected and sooner or later the disease should appear on the lower road. The Chinese have a quarantine station at Wanting on the border and are prepared for trouble with a quantity of plague vaccine which should control the human outbreak; from the number of rats easily seen it is doubtful if it will be any better handled than in Burma. Other diseases seem to be quiescent at the moment. Should you desire me to visit the Far Eastern Bureau of the League of Nations at Singapore, please cable to that effect. I could fly down in February. I'm not sure I could find out more than Howard Smith now knows as to its function regarding possible safeguards at Rangoon should the Bureau close, I feel that we will receive adequate information surely as long as Mr. Brady is here. His contacts seem to be complete throughout the British and Burman administrations and he is held in high regard by all. He is very active in getting general and specific information and I doubt if any epidemic could break out in Burma without his learning of it as quickly as could anyone sent here specifically for the purpose unless one travelled constantly through the country. That is hardly necessary, as these people do not seem inclined to hide their trouble spots. The Chinese Public Health men and clinic directors on the road from Wan Ting to Kunming do I'm sure investigate all outbreaks and report to Dr. Yen at Chungking who I believe would not hide it unless there were military significance. They certainly have not hidden the malaria.

Will report again after later developments.

Sincerely,

(Signed) Louis L. Williams, Jr.

Louis L. Williams, Jr.
Senior Surgeon
Chefang Anti-Malaria Laboratory



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

February 21, 1940

MEMORANDUM FOR THE SECRETARY

There is quoted below statement contained in a letter received this morning from Mr. Tell Berna, General Manager, National Machine Tool Builders' Association, concerning a distribution by money values of unfilled orders from foreign sources:

England:	\$33,372,387
France:	54,978,659
Japan:	16,063,694
Russia:	<u>11,392,816</u>
Total	\$115,807,556

A handwritten signature in cursive script, appearing to read "H. E. Collins".

H. E. Collins
Chairman, Liaison Committee

~~VIA WHITE HOUSE - SECRET~~

February 21, 1940

TO: THE PRESIDENT
FROM: SECRETARY MORGENTHAU

REFERRING TO YOUR RECENT MEMORANDUM ON FINANCING, I HAD NO INTENTION OF MAKING A CASH OFFERING IN MARCH BUT EXPECTED TO HAVE A CASH OFFERING IN JUNE. THERE ARE, HOWEVER, \$738,000,000 OF 1-1/2 PER CENT NOTES AND \$353,000,000 OF 3-3/8 PER CENT BONDS MATURING ON JUNE FIFTEEN NEXT. I FEEL THAT IT IS EXTREMELY IMPORTANT TO OUR FISCAL PROGRAM TO REFUND ON MARCH FIFTEENTH NEXT THESE MATURITIES AGGREGATING \$1,100,000,000. IF MY PLAN OF REFUNDING THESE IN MARCH IS TO BE CARRIED THROUGH, IT WILL BE NECESSARY FOR ME TO BEGIN CONSIDERATION OF THIS PROBLEM DURING THE WEEK OF FEBRUARY TWENTY-SIX SO THAT I CAN ANNOUNCE THE DETAILS OF ANY EXCHANGE OFFERING AGREED UPON FOR RELEASE MONDAY, MARCH FOUR.

I SHOULD APPRECIATE IT THEREFORE IF I COULD HAVE YOUR APPROVAL OF THE REFUNDING PROGRAM OUTLINED.

*via Coast Guard, in secret code,
10 p.m.*

5/ O.K. H.M.dr.

TREASURY DEPARTMENT

11

INTER-OFFICE COMMUNICATION

DATE February 21, 1940

TO Mr. White

FROM Mr. Hanson

Subject: Tabulation of answers to Inter-American Bank questionnaire (eleven replies)

Would a Bank increase trade among Latin American countries?

NO --	Ecuador	YES --	Paraguay (possibly)
	Venezuela		
	Panama		
	Dominican Republic		
	Guatemala		
	Honduras		
	Salvador		
	Haiti		
	Nicaragua		
	Colombia		

Is the Bank needed for seasonal financing strains?

NO -	Venezuela	YES -	Nicaragua	YES BUT NOT SERIOUS -	Ecuador
	Panama		Paraguay		Haiti
	Dominican Republic				Colombia
	Guatemala				
	Honduras				
	Salvador				

Would the spread between exchange rates be narrowed by Bank enabling direct quotations?

NO -	Ecuador	YES -	Nicaragua	YES BUT NOT SIGNIFICANT -	Colombia
	Venezuela		Paraguay		
	Panama				
	Dominican Republic				
	Guatemala				
	Honduras				
	Salvador				
	Haiti				

Division of Monetary Research

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Would a Bank improve mechanism of inter-American payments significantly?

NO -- Venezuela
Panama
Guatemala
Honduras
Haiti
Paraguay

YES -- Ecuador
Salvador
Nicaragua
Colombia

Would you want a long-term loan of gold or exchange for currency stabilization exclusively?

NO -- Ecuador
Venezuela
Panama
Dominican Republic
Salvador
Guatemala

YES -- Nicaragua
Honduras (possibly)
Haiti (may need if war effects bad)
Colombia - \$15 million
Paraguay

Do you need long-term developmental loans?

YES -- Colombia
Ecuador
Venezuela
Dominican Republic
Honduras
Haiti
Salvador
Nicaragua
Panama
Paraguay

INDIFFERENT - Guatemala

Would there be a considerable volume of prime commercial paper and short-term Treasury obligations that the Bank could buy or rediscount?

NO -- Venezuela
Paraguay
Panama
Colombia
Guatemala
Salvador
Honduras
Dominican
Haiti

YES -- Nicaragua
Ecuador (possibly)

Division of Monetary Research

- 3 -

Would there be a significant local demand for paper that the Bank guaranteed?

NO -- Paraguay	YES -- Nicaragua
Colombia	Honduras (possibly)
Salvador	Guatemala (but no significant change in interest rate would be achieved)
Panama	
Dominican Republic	Ecuador (possibly, but no significant change in interest rate be achieved)
Haiti	
Venezuela	

Are restrictions on transfer of funds so attributable to shortage of short-term credits, that we could expect reduced restrictions if short-term credits were more available?*

NO -- Paraguay	YES - Colombia (possibly but not significantly)
Nicaragua	
Honduras	
Venezuela	

A. G. + E. Case

14

S. E. C. COMMISSIONER EICHER, HAS EXPRESSED THE BELIEF THAT FORMER UNDERSECRETARY OF THE TREASURY HANES SHOULD BE DISQUALIFIED FROM APPOINTMENT AS A TRUSTEE OF THE ASSOCIATED GAS AND ELECTRIC COMPANY, SENATOR NORRIS WAS ADVISED TODAY.

IN A LETTER TO NORRIS, S.E.C. CHAIRMAN FRANK SAID A MAJORITY OF THE COMMISSION BELIEVES THAT THE FACTS INVOLVED IN THE CASE "DO NOT CONSTITUTE A STATUTORY DISQUALIFICATION OF MR. HANES," BUT THAT THEY "SHOULD BE ADDRESSED TO THE COURT'S DISCRETION IN CONSIDERING THE APPOINTMENT."

FRANK SAID HANES HAD ADVISED THE S.E.C. THAT THE DESIRABILITY OF HIS APPOINTMENT "WAS FIRST MENTIONED TO HIM BY A MEMBER OF THE BANKING FIRM OF LAZARD FRERES" AND SUBSEQUENTLY BY OTHER PERSONS, "INCLUDING SOME IN BANKING AND INVESTMENT BANKING CIRCLES, AMONG WHOM WERE OFFICIALS OF THE GUARANTY TRUST COMPANY, THE BANKERS TRUST COMPANY AND THE CHASE NATIONAL BANK."

EICHER, WHO HEADS THE COMMISSION'S DIVISION DEALING WITH REORGANIZATIONS UNDER THE CHANDLER ACT, WAS QUOTED BY FRANK AS FEELING THAT "THE EXERCISE OF A SOUND DISCRETION APPLIED TO THE AVAILABLE FACTS REQUIRE A FINDING OF DISQUALIFICATION, AND THAT THE COURT SHOULD BE ADVISED ACCORDINGLY."

2/21--R208P

not sent

2-21-40

15



THE SECRETARY OF THE TREASURY
WASHINGTON

Shd this go on Seary

My dear Senator Norris:

Upon my return to Washington today I read the copy of your letter of February 14th to Chairman Frank of the Securities and Exchange Commission relative to the Associated Gas and Electric case which you sent me on February 15th.

Like you, I would have been delighted by the appointment of the Securities and Exchange Commission as sole trustee in this proceeding.

In the interest of fairness, there is one matter which I want to clarify. Your letter is susceptible to the interpretation that former Under Secretary of the Treasury Hanes inquired of my position prior to the filing of the petition in bankruptcy on January 10th.

I have looked through my records and to the best of my recollection it was on January 11th, when I had lunch with Mr. Hanes, that he asked me if I would have any objection to his appointment as trustee. I told him that I would have no objection if the Court appointed him but at no time did I say that I would recommend him to the Court.

Sincerely yours,

Secretary of the Treasury

Hon. George W. Norris,

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Secretary of the Treasury

Hon. George W. Norris,

United States Senate

February 21, 1940

My dear Bob:

I am not sending you any documents to read because the picture changes every minute and I would rather wait until you and I have lunch together tomorrow to discuss the whole matter of Associated Gas.

Sincerely yours,

(Dgh) Harvey

Hon. Robert H. Jackson,
The Attorney General,
Wardman Park Hotel,
Washington, D. C.

My messenger

February 21, 1940

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The Attorney General,
Wardman Park Hotel,
Washington, D. C.

February 21, 1940

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Sincerely yours,

Ken, Robert H. Jackson,
The Attorney General,
Wardman Park Hotel,
Washington, D. C.

M/K

COPY
February 21, 1940

23

Regraded Unclassified

By Special Messenger

Honorable Jerome Frank
Chalrman
Securities and Exchange Commission
Washington, D. C.

Re: Appointment of Receiver for Associated Gas
and Electric Corporation

My dear Mr. Frank:

I have just read your letter of February 20. In my judgment, the facts therein stated constitute a complete vindication of the reasons set forth in my letter of February 14 why Mr. Hanes should not be appointed as trustee in bankruptcy for the Associated Gas and Electric Corporation.

From this letter, it appears that Mr. Hanes' appointment was favored by Lazard Freres, investment bankers, and "by other persons friendly to Mr. Hanes", and that among such other persons were the Guaranty Trust Company, the Bankers Trust Company, and the Chase National Bank. It appears, also, that Mr. Whiteford, President of Associated Gas and Electric Corporation, favored Mr. Hanes. It also appears the Commission knew that Mr. Whiteford had been made President of Associated Gas and Electric Corporation at the instance of Mr. Hepsen, his sisters, and a brother-in-law.

The facts disclosed establish that the Hepsen interests whose management brought the Associated Gas and Electric Corporation into general disrepute, and the Wall Street banks, including the Chase National Bank (which some years back took over Harris, Forbes & Company, through which many of the security issues of Associated Gas and Electric were sold) combined with the consent and active cooperation of Mr. Hanes to obtain his appointment as trustee.

COPY

Hon. Jerome Frank

Page 2
2/21/40

On the basis of the facts now known, it would seem incredible that the court should give further consideration to the appointment of Mr. Hanes. It is obvious that the great mass of security holders who have suffered tremendous losses would never have confidence in a trustee who could be suspected of being his appointment in any way to the intervention of the Hopes management and of Wall Street bankers, whose participation in the Associated Gas and Electric matter itself ought to be the subject of investigation and censure.

In my opinion, such appointment under these circumstances would be not only shocking to the public, but would constitute a plain violation of the spirit if not the letter of the Chandler Act.

Sincerely yours,

G. W. MORRIS (S)

COPY

SECURITIES AND EXCHANGE COMMISSION

Washington

OFFICE OF THE CHAIRMAN

February 20, 1940.

The Honorable
George W. Norris
United States Senate

In re: Associated Gas & Electric Corporation
and Associated Gas & Electric Company

My dear Senator Norris:

The Commission has most carefully considered your letter of February 14 to me, with reference to the appointment of Mr. John Hanes as trustee in bankruptcy of Associated Gas & Electric Corporation and has asked me to advise you as follows:

Prior to the receipt of your letter, the Commission had already been advised by Mr. Hanes of the fact that the desirability of his appointment as trustee was first mentioned to him by a member of the banking firm of Lazard Freres and subsequently by other persons friendly to Mr. Hanes, including some in banking and investment banking circles among whom were officials of the Guaranty Trust Company, the Bankers Trust Company and the Chase National Bank. He had also advised us that he was favored by Mr. Roger Whiteford, president of Associated Gas & Electric Corporation, who had then recently been made president of that company at the instance of the sisters and a brother-in-law of Mr. Hopson. The Commission also is aware of the fact that Mr. Hanes was formerly engaged in the investment banking business. A majority of the Commission believes that those facts do not constitute a statutory disqualification of Mr. Hanes as one of the trustees, but are facts which should be addressed to the court's discretion in considering the appointment of Mr. Hanes. Accordingly, the Commission has apprised the court of those facts, a copy of your letter of February 14 having been delivered to the court.

Four members of the Commission believe that, since we are already aware of the facts above narrated, there

COPY

-2-

is no need for any further investigation, along the lines suggested by you, with reference to the facts reported by Mr. Krock.

Commissioner Eicher, who is sponsor of the Re-organization Division that carries out the Commission's functions under the Chandler Act, asks me to record his belief that the exercise of a sound discretion applied to the available facts requires a finding of disqualification, and that the court should be advised accordingly.

Sincerely yours,

(Signed) Jerome N. Frank

Jerome N. Frank
Chairman

COPY

27

H/X

February 21, 1949

By Special Messenger

Honorable Jerome Frank
Chairman
Securities and Exchange Commission
Washington, D. C.

Re: Appointment of Receiver for Associated Gas
and Electric Corporation

My dear Mr. Frank:

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On the basis of the facts now known, it would seem incredible that the court should give further consideration to the appointment of Mr. Hanes. It is obvious that the great mass of security holders who have suffered tremendous losses would never have confidence in a trustee who could be suspected of owing his appointment in any way to the intervention of the Hopson management and of Wall Street bankers, whose participation in the Associated Gas and Electric matter itself ought to be the subject of investigation and censure.

1921

Hon. Jerome Frank

Page 2
2/11/40

In my opinion, such appointment under the circumstances would be not only shocking to the public, but would constitute a plain violation of the spirit if not the letter of the Chandler Act.

Sincerely yours,

G. W. Davis (S)

COPE

SECURITIES AND EXCHANGE COMMISSION

Washington

OFFICE OF THE CHAIRMAN

February 20, 1940.

The Honorable
George W. Norris
United States Senate

In re: Associated Gas & Electric Corporation
and Associated Gas & Electric Company

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Four members of the Commission believe that, since we are already aware of the facts above narrated, there

COPY

- 2 -

is no need for any further investigation, along the lines suggested by you, with reference to the facts reported by Mr. Krosk.

Commissioner Eicher, who is sponsor of the Reorganization Division that carries out the Commission's functions under the Chandler Act, asks me to record his belief that the exercise of a sound discretion applied to the available facts requires a finding of disqualification, and that the court should be advised accordingly.

Sincerely yours,

(Signed) Jerome H. Frank
Jerome H. Frank
Chairman

MA

TELEGRAM SENT

GRAY

February 21, 1940

7 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

36.

We met with Francis White today and reviewed the status of the Brazilian debt offer. The Council is still of the judgment that the offer in its latest form is still not adequate and would afford comparatively greater consideration to the holders of sterling than to the holders of dollar bonds. White quite definitely is of the opinion that the Council could not make any positive recommendation to the bondholders.

The Department has fully explained to the Council that this offer is one that the Brazilian Government has shaped up itself and is not to be regarded as a negotiated settlement. It has explained why in its judgment there are strong reasons for regarding even a comparatively unsatisfactory offer as a step forward. Moved by these considerations it has said to the Council that if the Brazilian Government went forward with the offer, particularly if the Brazilian Government would improve its terms on the vital point explained below, it might consider requesting the Council to abstain from comment on the offer

MA -2- tel # 36, February 21, to Rio de Janeiro

offer and merely state that it understood the offer to be the unilateral offer of the Brazilian Government and it would not undertake to advise the bondholders in regard to it. White stated that should we make any such request of the Council, he would discuss it with his Executive Committee; in that contingency the Department would use its best influence.

The prospective offer as it now stands has one leading feature certain to give rise to dissatisfaction and criticism in the United States. You are therefore requested to bring this aspect of the question before the Brazilian officials with emphasis and thoroughness and to continue your effort to secure a modification that will be more satisfactory. The Department has in mind the relative treatment of the securities in Grades I, II and III. You know of course the preponderant American interest in Grade III. It is felt that the proposed treatment of these grades is not in correspondence with the underlying equities and that there is no basic reason for retaining them because they were established in the original Aranha plan. The securities in Grade III rest upon the full credit of the Brazilian Government besides possessing specific pledges in every instance. It is therefore most difficult to find justification for the markedly better terms offered the securities in
Grades

MA -3- tel # 36 February 21, 1940 to Rio de Janeiro.

Grades I and II. The extent of the comparative favor shown Grades I and II is borne out by the following calculations, the full weight of which is all the more clear since the Sao Paulo Coffee Realization Loan is only a State security and not one of the Federal Government. According to our calculations, 82 separate loan issues would be serviced under the plan. The principal of these 82 issues totals approximately \$996,000,000. Of these, the Sao Paulo Coffee Realization Loan makes up \$44,000,000 or approximately $4\frac{1}{2}$ per cent of the total principal of the bonds involved. Under the scheme of payment now proposed, however, these bonds would receive as interest and amortization approximately \$3,200,000 out of a total service that would range in different years from approximately \$16,000,000 to approximately \$18,000,000. In other words, bonds making up 4.5 per cent of the total principal would receive 20 per cent of the total payments and of the foreign exchange provided. The American holders of Federal securities and of other Brazilian State securities are apt to believe this an overpaid position in comparison with the terms accorded to them.

The same conclusion is indicated when it is remembered that the prospective plan calls for the use in amortization of the securities placed in Grades I and II of approximately 22 per cent of the total exchange to be remitted. These also

go

MA -4- Tel # 36 February 21, 1940 to Rio de Janeiro

go preponderantly to the holders of sterling securities.

The Department greatly hopes that the Brazilian Government will appreciate the clear advisability of modifying its offer to rectify this situation.

The whole offer would be certain of more satisfactory reception here if the Federal loans in Grade III received as good treatment as the Federal loans now in Grade I and if part of the funds now allocated for amortization in Grades I and II were distributed either as interest or amortization to include Grade III loans on terms not less favorable than those received by any Brazilian issue.

Finally, I believe that it would be preferable if the plan were for three years instead of four, the annual scale of payment being modified so that the payment in the third year would be the same as now being discussed for the fourth year.

HULL

EA:HF:LWW

RA

TELEGRAM SENT

JT

GRAY

February 21, 1940

8 p.m.

AMEMBASSY

RIO DE JANEIRO

37

Department's 36, February 21, 7 p.m.

The Council has outlined the terms on the basis of which it will make a favorable recommendation to the bondholders as follows: 50 per cent of the contractual interest on the Federal bonds; 40 per cent of the contractual interest on the State bonds; 30 per cent of the contractual interest on the municipal bonds, and they hope to have Ceara included in at least the lower category of the municipal bonds.

The Council also states that it would prefer that the above offer be made for two years rather than for four.

HULL

EA:HF:LWW

RA

RECEIVED FEB 22 1940

2-21-40
Proposed Agenda For Conference To Be Held In The Treasury
February 26 on Gold and Silver

SUMMARY OF AGENDA

*(meeting was postponed indefinitely)*Gold

1. What is the problem facing the Treasury in its gold policy?
2. Is it desirable to reduce the flow of gold into the United States?
3. Has any measure to reduce gold inflows been suggested which is practical, effective and expedient?
4. Should any other modification of our gold policy be made at this time?
5. What preparation, if any, should we make for possible modification of our gold policy in the future?
6. Should we take any action with respect to the existing tripartite understanding?

Silver

1. Should the United States continue to purchase foreign silver?
2. Should our price policy with respect to foreign silver be modified?
3. Should our policy with respect to silver seigniorage be modified?
4. Should any steps be taken by the Treasury to prepare for reconsideration of the domestic silver purchase policy?
5. Should any steps be taken to increase the monetary use of silver in foreign countries?
6. Can the Treasury initiate any program designed to increase the industrial use of silver?

Proposed Agenda For Conference To Be Held In The Treasury
February 26 on Gold and Silver

GOLD

A. What is the problem facing the Treasury in its gold policy?

1. Growing public concern over our gold holdings
 - (a) Increasing public criticism of present gold policy (Memo No. 1)
 - (b) Increasing Congressional concern over gold (Memo No. 2)
 - (c) Possibility of gold policy becoming one of the major issues of coming campaign
2. Increasing excess reserves and "cheap money" policy
 - (a) Is there a danger of "inflation"? (Memo No. 3)
 - (b) Effect on interest rates and bank earnings (Memo No. 4)
 - (c) Effect on public "confidence"
3. Depletion of gold holdings in foreign countries (Memo No. 5)
 - (a) Prospects of continuing inflow into the United States (Memo No. 6)
 - (1) From other nation's present holdings
 - (2) From new production
 - (3) From countries having effective exchange controls
 - (4) From countries not having effective exchange controls

Division of Monetary Research
U. S. Treasury Department

- 2 -

4. Cost to the United States of gold acquisitions (Memo No. 6)
- (a) Of maintaining our present holdings
 - (b) Of continuing gold acquisitions
 - (1) From domestic mine sources
 - (2) From foreign countries
 - a. Capital movements -- 1st Deposits, 2nd Purchases of American securities, 3rd Sale of foreign securities by Americans, 4th Reduction of American balances abroad
 - b. Balance of trade and services -- interest payments -- "residual"
5. Is there any prospect of demonitization of gold in the foreseeable future?
- (a) Is it likely that any country will refuse to accept gold?

Significance of the gold policy of the Scandinavian countries during the last war (Memo No. 7)

Significance of the fact that no important country has ever (i.e., in modern times) completely exhausted its gold stocks (Memo No. 8)
 - (b) Can any important country adopt a permanent policy designed to prevent inflows of gold?
 - (c) Is there any valid reason to anticipate that gold will cease to be widely used as an international medium of exchange?
 - (d) Is the possibility of demonitization of gold increased by monetary and trade practices which curtail (without eliminating) the use of gold in settling international balances?

Division of Monetary Research
U. S. Treasury Department

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- (e) What consequences would follow with respect to our gold policy if gold were to be used much less in settling international balances although it was continued to be used to some extent by some countries?

B. Is it desirable to reduce the flow of gold into the United States?

1. Disadvantages of the continuing inflow of gold.

- (a) Increasing excess reserves (Memo No. 9)
- (b) Increasing criticism against Treasury monetary policy (Memo No. 10)
- (c) Depletion of gold holdings of foreign countries (Memo No. 11)
- (d) Possibility of economic loss in the exchange of services for gold
- (e) Effect on the earning power of the banks (Memo. No. 12)
- (f) Effect on our net barter terms of trade (Memo No. 13)
- (g) Reduces the possibility of transferring to American ownership securities and property now held by foreigners (Memo No. 14)

2. Advantages of continuing inflow of gold

- (a) Protection to our security markets (Memo No. 15)
- (b) Effect on our international competition position (Memo. No. 16)
- (c) Effect on money rates
- (d) Assistance to gold holding and gold producing countries.

Division of Monetary Research
Treasury Department

- 4 -

C. Has any measure to reduce gold inflows been suggested which is practical, effective and expedient?

1. Embargo on gold imports
2. Reduction in the price for gold
 - (a) Through independent action
 - (b) Through international agreement
3. Increase the spread between the buying and selling for gold (Memo No. 17)
4. Restriction in the production of newly mined gold (Memo No. 18)
5. Segregation of monetary gold from non-monetary gold by international agreement (Memo No. 19)
6. Restriction of capital inflows and promotion of capital outflows (Memo. No. 20)
7. A program of tariff over-all reductions to increase imports (Memo No. 21)
8. A program of foreign lending (Memo. No. 22)
9. Imposition of embargo on exports of munitions to countries engaged in warfare (Memo No. 23)
10. Other measures to reduce the extent of our favorable balance of payments (Memo No. 24)
11. Discrimination in our purchases of gold (Memo No. 25)
 - (a) Unilateral action by the United States
 - (b) Action undertaking in concert with some other governments

D. Should any other modification of our gold policy be made at this time?

1. Restoration of privilege of unrestricted convertibility of currency into gold, and the right

Division of Monetary Research
Treasury Department

- 5 -

to hold gold in coins, certificates, or bullion.
(Memo No. 26)

2. Establishment of a free gold market.
3. Utilization of some of the gold in the Stabilization Fund. (Memo. No. 27)
4. Proposal for increasing the amount of "free" gold available to the Treasury for various purposes. (Memo No. 28)
 - (a) Newly mined gold
 - (b) Gold from certain countries for economic reasons
 - (c) Gold purchases as part of some special commercial arrangement between governments
6. To promote the use of gold as a necessary monetary reserve and as a circulating medium by international agreement.
7. Special tax on newly mined domestic gold (Memo No. 30)

E. What preparation, if any, can we and should we make for possible modification of gold situation?

1. Is it desirable that the world gold production be curtailed at this time?
2. Should we begin to plan now toward a reduction of newly mined gold after the war? (Memo No. 31)
3. What are the prospects for the development of an unfavorable balance of payments for the United States in the foreseeable future?
4. What steps shall the Treasury take if it appears that a war boom is imminent in the United States? (Memo No. 32)

- 6 -

5. What adjustments, if any, should the United States make to her increasing creditor position arising from reduced foreign investments in the United States? (Memo No. 33)
 6. Should we be concerned with further downward movements in the Canadian dollar? In sterling? (Memo No. 34)
 7. Should the prepared bill providing for 100 percent reserves against foreign deposits be revised?
 8. Should we eliminate the Treasury charge of $1/4$ of 1 percent for the buying and selling of gold?
- F. Should we take any action with respect to the existing tripartite understanding?
1. Shall an attempt be made to extend the tripartite understanding to Latin American countries or to other neutral nations?
 2. Shall an attempt be made to extend the comprehensiveness of the agreement among existing members?

Silver

- A. Should the Treasury continue to purchase foreign silver?
1. Shall we continue our policy of making special arrangements with certain countries to acquire their newly mined production?
 2. Should an attempt be made to discriminate in our purchases against silver from certain countries?
 3. Should a distinction be made in our purchases between newly mined silver and other silver?

Division of Monetary Research
Treasury Department

- 7 -

B. Should our price policy with respect to foreign silver be modified?

1. Should we try to keep the price of foreign silver stable?
2. Or, should we aim at a rate of purchases irrespective of the resultant price?
3. Shall the price of silver be gradually permitted to decline until it no longer needs Treasury support?
4. Shall the tax on trading silver profits be removed?

C. Should our policy with respect to silver seigniorage be modified?

1. Shall silver certificates be issued against any of the silver seigniorage? (Memo No. 35)
2. Shall legislation be sought to eliminate silver seigniorage?
3. Shall the present policy be continued?

D. Should any steps be taken by the Treasury to prepare for consideration of domestic silver purchase policy?
(Memo No. 36)E. Should any steps be taken to increase the use of monetary silver in foreign countries?

1. Through the instrumentality of the proposed inter-American bank. (Memo No. 37)
2. Through special arrangements with silver-producing countries?

F. Can the Treasury initiate any program designed to increase the industrial use of silver? (Memo No. 38)

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 21, 1940, 5 p.m.

NO.: 247



Reynaud received a delegation of war veterans' representatives this noon which he utilized to issue one of his usual confident public statements on the state of the nation's finances. His communique denying that war signified financial ruin cited the following "facts": the value of the franc on the New York free market has risen recently from 46.40 to 44.60 to the dollar; armament bond subscriptions which totalled 2,200,000,000 in September and 5,300,000,000 in October reached "an average of more than 8,000,000,000 in December and January"; the excess of savings deposits over withdrawals has risen from 300,000,000 in October to 625,000,000,000 in November 585,000,000 in December and 710,000,000 in January; the discount rate of the Bank of France has been maintained at 2% "which is the lowest in the world except those of the United States and Switzerland"; French rentes after a substantial drop at the beginning of the war have entirely recovered their loss "without any support from the rentes fund"; in the midst of war a civil budget of 80,000,000,000 has been balanced; "in spite of gigantic purchases abroad our reserve of gold and foreign exchange is almost equal to what it was at the beginning of the year thanks to the repatriation of capital which beginning

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beginning in November 1938 has continued since the beginning of the war"; tomorrow's Bank of France statement will show that 7,000,000,000 of the 25,000,000,000 authorized advance remain untapped.

Today I had lunch again with Rist. Rist, like the overwhelming majority of Frenchmen today is determined that the war shall be carried on to final victory. He once more voiced his growing conviction that the longer the war goes on, the greater is the probability that after the war policies of autarchy will be brought on by the sheer pressure of events and circumstances, rather than by deliberate intention to bring them on. He said that in view of his life-long defense of economic liberalism, this conviction was particularly saddening to him. Incidentally, he said he very much feared that in the next era (omission) peace the American program of trade agreements would find hard sledding - and he is a staunch defender of this program.

During the past few days the question of Reynaud's retirement has reached several "crises". In discussing this Rist remarked that he felt it would be most unfortunate if Reynaud were to retire, as there really is no one who could adequately replace him. Rist has been a strong supporter of Reynaud's major financial policies, although he is not a great admirer of him personally. Rist said that contrary to his earlier impressions of the progress of exports from

France

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France recently, Alphand told him that after the satisfactory improvement for the months of November and December, the figures for January are "discouraging". He said that this failure to bring about the vital increase in French ^{ex} imports (FF) is due in part to the old problem of lack of skilled labor - the Army is not willing to release key men for industry - and to the rationing of import permits for essential raw materials, which rationing is of course motivated by a desire to preserve foreign exchange for essential imports of armaments.

The responsible Allied authorities will, it is presumed, be plagued on an increasing scale by this inevitable conflict for priority between armament needs and requirements of raw materials for the export industries, when they must so carefully husband their gold and exchange resources.

I asked Rist about the purpose of the new financial blockades commission, of which he has been made chairman. He said that his Minister, Pernet, asked that it be established in order to facilitate efforts to check on the sources of German foreign exchange and to block it if possible. He said that the sources to be checked include sums obtained indirectly through German compensation trade with neutrals in Europe and payments being made to Latin American countries on pre-war debts to Germany and German concerns, revenue of concerns having mixed international capital in

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various parts of the world where some influence may be exerted by French interests. He said that fortunately this commission has a task far easier than that confronting its predecessor in the last war, because Germany does not have as many resources abroad as she did then, and there now exist Allied exchange control mechanisms to prevent leaks in the wrong direction in parge part. This morning a rectifying decree was issued which eliminates Auboin from the new commission.

Rist expressed great pleasure over the ALTMARK incident, and he was quite critical of Norwegian attitude. In connection with shipments of Swedish ore through Narvik, he again remarked how valuable it would be as a means of shortening the war if these shipments, which are within territorial waters throughout the jomney, could be cut off from Germany. Much thought is being given to the problem by both the British and French, he said.

END OF MESSAGE.

MURPHY.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 21, 1940

Secretary Morgenthau

Mr. White

Subject: Shipments of Molybdenum to Italy

Italy may now be trans-shipping molybdenum to other countries.

Shipments of molybdenum to Italy during the first two weeks of February totalled \$220,732. This is the largest shipment of this product recorded and is 54% of the total exported to Italy in the year 1939.

Following are values for exports of molybdenum to Italy from January 1939:

(In thousands of dollars)

	<u>1939</u>	<u>1940</u>
January	\$ 62	\$ 90
February	--	221 (1st two weeks)
March	26	
April	73	
May	79	
June	--	
July	94	
August	--	
September	--	
October	37	
November	38	
December	--	
Total	\$409	

Copies to: Mr. Gaston
Mr. Basil Harris
Mr. Cochran

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE 2-21-40

TO Secretary Morgenthau
FROM Mr. White

The appended memorandum on our foreign trade since the outbreak of European war brings out the following pertinent facts:

1. Total Trade

a. Our excess of exports over imports which began to rise in May continued to increase after the outbreak of the war and in December was the largest in a decade. Exports during the first five months of war were 30 percent higher than a year ago; imports for the first four months only were 27 percent higher. The increased value of our foreign trade since August represents primarily an increase in volume, the prices paid for imports and received for exports having risen on the average no more than 10 percent.

2. Exports

a. Exports of the United States increased more during the last four months of 1939 than exports of any other leading country for which we have data except Japan. Japanese exports were 31 percent higher this September through December than last. (Our exports during the same period were 21 percent higher.) Exports of leading European countries -- neutrals and belligerents alike -- declined sharply after August. No figures are available for France and Italy, but confidential reports indicate that exports of France are now lower than a year ago while exports from Italy are higher. Part of the increased Italian exports probably represents re-exports of German goods.

b. France and the United Kingdom have purchased more from us during the first five months of war than they did during a comparable period a year ago. Exports to France were 89 percent higher, exports to the United Kingdom, 10 percent higher. The principal items involved are raw cotton, airplanes and machinery. Larger shipments of these commodities account for the sharply upward spurt in our exports to these countries during the past two months.

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c. Exports to Scandinavian countries have been maintained well above the level of a year ago. No shipments of United States merchandise have been made since late September directly to Germany. Belgium is the only other leading European country which purchased less from us during the five months of war than during the corresponding period last year.

d. Netherlands West Indies is the only important American country which did not expand the scale of its purchases of United States merchandise after the outbreak of hostilities. Exports to other American countries rose sharply, with increases for the five month period ranging from 31 percent in the case of Colombia to 66 percent in the case of Brazil. Exports to Canada are now running about 50 percent higher than a year ago.

e. Larger shipments to Japan, China and the Philippine Islands account for the 26 percent rise in our exports to Asia this September through December over last.

f. Raw cotton, packing house products and canned vegetables are the only agricultural commodities which have been exported in larger volume since the outbreak of the war than a year earlier. Raw cotton exports during the five months of hostilities have been over 200 percent larger than during the same period of last season and in January were the largest for any January on record. Shipments of tobacco, grain and fresh fruit have been sharply curtailed.

g. The gain in exports has been concentrated in metals, machinery, chemicals and aircraft. Aircraft exports are now running about five times as high as a year ago; exports of iron and steel manufactures are two and one half times as high. Foreign demand has also increased for our coal, leather and petroleum products.

3. Imports

a. Canada and Norway are the only two leading countries of the world for which we have data whose imports increased more since August than imports into the United States.

b. Our imports of finished manufactures have not risen since the outbreak of war. Imports of raw materials

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and semi-manufactured goods were 40 percent higher during the first four months of war than a year earlier with all major groups of raw materials and semi-manufactures except chemicals sharing in the gain.

c. United States imports rose from all continents of the world except Europe. The largest dollar increases September through December were registered by Asia and Canada. Imports from Asia were 45 percent larger and imports from Canada 42 percent larger than during the corresponding period of 1938.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 1940

TO Mr. White

FROM Miss Kistler

Subject: What has happened to the foreign trade of the United States during the first five months of the war?

1. What changes have occurred in our total foreign trade?

Our excess of exports over imports continued to rise after the outbreak of the European war and in December was the largest in a decade.

The rise was due to a greater increase in exports than in imports. During the first five months of war, our exports averaged 30 percent higher in value than during the corresponding period a year earlier and 50 percent higher in value than during the preceding eight months; the comparable rise in imports, during the first four months, was 27 percent and 22 percent, respectively.

The increase in value of our foreign trade since August is due primarily to an increase in volume, the prices paid for imports and received for exports having risen on the average no more than 10 percent.

United States Foreign Trade, 1938 and 1939

(In millions of dollars)

	Exports	Imports	Excess of Exports
<u>1938</u>			
Monthly average			
January-August	\$256	\$158	\$98
September	246	168	78
October	278	178	100
November	252	176	76
December	269	171	98
<u>1939</u>			
Monthly average			
January-August	\$237	\$180	\$57
September	289	182	107
October	332	215	117
November	293	236	57
December	368	247	121
1940 - January	358 ^{1/}		

^{1/} Domestic exports only, as large as in December 1939.

2. Have our total exports fared better or worse than total exports of other leading countries?

Exports of the United States increased more after the outbreak of the war than exports of any other leading country except Japan. Canadian exports registered a greater gain over the 1938 level after the commencement of hostilities than before, but about one-half of the rise during the last four months represents large shipments of wheat to this country for storage. Shipments of merchandise after August declined sharply from European countries--neutrals and belligerents alike -- and from those members of the British Empire not largely dependent upon the United States market for the sale of their exportable produce.

Exports of Leading Countries

Percentage Increase, 1939 over 1938

	September-December $\frac{1}{4}$	January-August
Japan ^{2/}	31%	12%
United States	21	- 7
Canada	15	12
China	15	23
Argentina	10	12
Denmark	2	2
British India	1	11
Sweden	- 4	6
Norway	- 5	6
Australia	- 7	- 15
Hong Kong	- 22	4
United Kingdom	- 27	-
Switzerland	- 32	11
Netherlands	- 34	6

^{1/} Figures for the United States, Canada, United Kingdom, Denmark and Sweden cover the 4-month period September-December. Figures for British India and Hong Kong are for September through October only. Data for the remaining countries cover the months September through November.

^{2/} Exports to countries outside the yen-bloc only.

3. Has there been any significant geographical shift in our export trade?

Our exports after August increased sharply to North and South America. These two continents took 37 percent of our exports during the first four months of war (the largest proportion since the late 20's) compared with 32 percent during the corresponding period of 1938. This rise was at the expense of Europe, the relative importance of which as an outlet for our exports was 10 percent smaller this September-December than last.

It is not likely that our exports to Latin America will continue to rise. Large-scale purchases of war supplies in this country by the Allies, if they do materialize, are not likely to be matched by an equal increase in purchases by American countries. Shipments in January were lower than in December to all Latin American countries for which we have data.

Percentage Distribution of United States Exports

	: September - December	
	: 1939	: 1938
Total	100.0 %	100.0%
Europe	39.9	44.3
North America	26.2	22.7
South America	11.1	9.3
Asia	17.4	16.9
Africa	3.1	3.9
Oceania	2.3	2.9

The cutting off of the German markets for our commodities and the sharp drop in shipments to the United Kingdom during the early months of the war account in large part for the less-than-average rise in our exports to Europe since August. Belgium is the only other leading European country which has purchased less from us since the opening of hostilities than during the corresponding period a year earlier. Increases of 80 percent or more were registered by Norway, France, Sweden and U.S.S.R.

Netherlands West Indies is the only important American country which did not expand the scale of its purchases of United States merchandise after the outbreak of hostilities. Shipments to other Latin American countries rose sharply; increases for the five-month period range from 31 percent in the case of Colombia to 66 percent in the case of Brazil. Machinery, vehicles, and metals were the principal items involved.

Exports to Canada since August have been running 45 percent higher than a year ago. This compares with the more-than-average decline of the first eight months of the year.

Japan, China and Philippine Islands account for the sharp rise in exports to Asia since August.

4. What export commodities have been benefited and what export commodities have been adversely affected?

The impact of the war has been most unfavorable upon our agricultural commodity exports. Only raw cotton, packing-house products and canned vegetables have moved abroad in larger volume since the outbreak of the war than they did a year earlier. Shipments of tobacco, grains, and fresh fruits have been sharply curtailed. The outlook is poor for exports of these commodities; for wheat exports, because of the preference of the United Kingdom for wheat from sterling countries, the ability of France to secure the wheat it needs from North Africa, and the large world wheat stocks on hand; for tobacco exports, because of the English policy of drawing upon the two-year supply of American tobacco in that country; and for fresh fruit exports, because of the war-time prohibition on fresh fruit imports into the United Kingdom and France.

Due to the unfilled orders outstanding at the commencement of hostilities shipments of canned and dried fruits were well maintained during the first two months of the war. The severe decline since then presages much smaller shipments in the immediate future.

Raw cotton exports have increased more than exports of any other commodity. Heavy shipments to Great Britain, France and Japan in January brought the total for the month to the highest point since November, 1935. Shipments were the largest for any January on record. During the five-month period since the outbreak of hostilities they have been over 200 percent above the 57-year low of last year.

The figures below reveal clearly the depressing effect which the war has had upon our exports of agricultural commodities.

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 United States Exports of Agricultural Commodities,
 September, 1939 - January, 1940

(In millions of dollars)

	: September 1939- : January 1940	: Percentage decrease : over September 1938- : January 1939
Wheat	\$ 5.0	-70 %
Tobacco	30.9	-67
Fresh fruit ^{1/}	9.5	-49
Corn	12.2	-27
Canned and dried fruits	26.0	-7
Lard ^{1/}	6.7	-6
Wheat flour	10.2	18
Meat products	14.8	25
Canned vegetables	4.0	49
Raw cotton	214.9	108

^{1/} September-December only.

Producers of metals, machinery, chemicals and aircrafts have been the principal recipients so far from trade benefits flowing from the European war. Aircraft exports have registered the most spectacular rise (194 percent) and in December for the first time in our history were higher in value than our exports of automobiles.

The immediate impact of the war upon our automobile exports was unfavorable. Some improvement has occurred in the past four months although shipments for the war period are lower than a year ago. In the absence of greatly intensified military operations, no substantial rise may be expected in the near future.

Copper exports after suffering a sharp initial setback recovered rapidly during the past three months to reach in January a level almost twice as high as in August. Foreign demand for our iron and steel products, especially in Asia and Latin America, surged sharply upward after the outbreak of the war. Exports of these commodities during the past five months have been running over 80 percent higher than a year ago.

Chemicals, metal working machinery, coal, leather and petroleum products have also been in greater demand than last year. The prospects are good for our exports of all these commodities except coal, shipments of which, although over 50 percent larger during the 5-month period than a year earlier, have declined each month from the peak reached in September.

Some indication of the effect which the war has had upon our principal non-agricultural commodity exports is given by the following table.

United States Exports of Non-Agricultural Commodities,
September - January, 1940

(In millions of dollars)

	: September 1939- : January 1940	: Percentage increase : over September 1938- : January 1939
Aircrafts, parts and engines	\$ 71.7	194 %
Steel mill manufactures	38.8	93
Iron and steel semi-manufactures	98.9	87
Chemicals and related products	89.9	61
Coal	34.5	56
Copper	53.4	56
Leather	6.8	45
Iron and steel advanced manufactures ^{1/}	20.2	37
Metal working machinery	56.3	36
Electrical machinery	47.7	16
Petroleum and products	168.0	11
Auto, parts and accessories	99.8	- 7

^{1/} September through December only.

5. Have our imports increased more or less than imports of other leading countries?

Canada and Norway are the only two leading countries of the world whose imports increased more since the outbreak of the war than imports of the United States. Imports into China are running higher than a year ago but by a smaller margin than they did during the first eight months of 1939. The effectiveness of the import controls recently established by various members of the British Dominions is evidenced by the decreased imports of those countries.

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Imports of Leading Countries
Percentage Increase, 1939 over 1938

	: September - : December 1/	: January - : August
Canada	36 %	5 %
Norway	33	5
United States	27	14
China	22	65
Sweden	22	20
Switzerland	18	13
Japan 2/	9	6
Netherlands	7	5
Denmark	6	8
Hong Kong	2	- 8
Argentina	- 1	-13
British India	- 4	9
United Kingdom	- 8	-10
Australia	-14	- 9

1/ Figures for the United States, Canada, United Kingdom, and Scandinavian countries cover the 4-month period, September through December. Figures for the other countries cover the months September through November.

2/ Imports from countries outside the Yen-bloc area only.

6. Has there been any material change in the composition of our imports?

As in all periods of marked industrial recovery in the United States, imports of raw materials and semi-manufactured goods have increased more than imports of other types of merchandise. Heavier receipts of these materials are largely responsible for the use in imports on 1939 over 1938. Imports of raw materials and semi-manufactured goods during the first four months of war were 42 percent and 35 percent higher, respectively, than a year earlier. This compared with a rise of less than 1 percent in imports of finished manufactures.

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 United States Imports by Commodity Groups
 September - December 1939

(In millions of dollars)

	: September - : December : 1939	: Percentage : Increase over: : September - : December 1938	: January-August 1939 : Percentage Increase : over : January-August 1938
Crude Materials	\$300	42 %	22 %
Semi-manufactures	188	35	22
Manufactured foodstuffs	118	18	- 7
Crude foodstuffs	98	11	12
Finished Manufactures	150	1	8

All major groups of raw materials and semi-manufactures, except jute and chemicals were imported in larger quantity during the first four months of war than they were during the same period a year earlier. The most spectacular increases were registered by the metals, nickel, tin and copper. Imports of crude rubber and raw wool also increased sharply at higher prices. Raw silk imports, although 70 percent higher in value, were only 4 percent larger in volume than during the corresponding period a year ago.

 United States Imports of Raw Material and Semi-Manufactures
 September - December, 1939

(In millions of dollars)

	: September - : December, : 1939	: Percentage Increase over : September - December : 1938
Nickel and alloys	\$11.5	140 %
Tin	29.5	91
Silk, raw	61.5	71
Wool, unmanufactured	21.2	69
Rubber, crude	72.6	57
Copper	15.3	56
Diamonds	18.5	29
Hides and skin	16.6	24
Wood pulp	32.3	15
Coal tar products	6.0	- 2
Industrial chemicals	5.7	- 6

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Larger purchases of tropical and semi-tropical foodstuffs, especially of cocoa and tea, are responsible for the rise in our imports of crude foodstuffs since August over the level of a year ago.

Newsprint is the only finished manufactured good which was imported in substantially larger quantities this September-December than last. Textile imports with the exception of silk manufactures were higher than last year, while imports of steel mill manufactures and of machinery fell off sharply.

United States Imports of Foodstuffs and Manufactured Goods
September - December 1939

(In millions of dollars)

	: September - : December, 1939	: Percentage Increase over : September - December : 1938
Cocoa	\$ 8.7	61 %
Wool manufactures	6.0	17
Newsprint	45.4	16
Tea	7.4	14
Cotton manufactures	13.0	11
Coffee	48.4	4
Machinery	3.0	- 20
Silk manufactures	2.4	- 21
Steel mill manufactures	2.0	- 42

7. What, if any, shift has occurred in the geographical distribution of our imports?

We purchased more, this September through December than last, from all continents of the world except Europe. The largest dollar increase occurred in our imports from Asia and Northern North America and reflect the increased demand in this country for industrial materials. The large percentage increase in imports from Oceania and Africa are small in absolute figures.

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Division of Monetary
ResearchUnited States Imports by Continents,
September - December, 1939

(In millions of dollars)

	September - December, 1939	Percentage Increase over September - December, 1938
Europe	\$210.7	- 4 3/4
Southern North America	74.0	25
South America	126.3	37
Northern North America	144.0	42
Asia	286.9	45
Oceania	9.6	46
Africa	27.6	61

Heavier shipments of raw materials, especially of crude rubber, tin and silk, are responsible for the spectacular rise in imports from Asia. All leading Asiatic countries participated with increases ranging from 16 percent in the case of British India to 89 percent in the case of British Malaya.

The gains in imports from Latin America were shared by all leading Latin American countries, except Netherland West Indies. Imports from Argentina were 50 percent higher than during the last four months of 1938.

Germany, Netherlands and France failed to sell as much to us this September-December as last. Imports into this country from Germany continue at a level one-half to two-thirds lower than a year ago. The Scandinavian countries, Belgium, Italy and the United Kingdom have maintained their exports to the United States well above the level of last year. Our purchases from the U. S. S. R. have declined slightly.

Appended is a table of United States Imports by countries during the first four months of war.

8. What problems have been created?

The shift of Allied purchases in this country from agricultural products to industrial goods, the loss of an important export market by Latin American countries, the centralized marketing controls for British Empire exportable supplies of certain commodities like wool and cocoa, and the intensified export drive projected by Britain are the four sources of our principal problems arising from the war situation abroad.

Large war orders for aircrafts and to a lesser extent of metals and machinery in time will encourage expansion of plant capacity in these industries, an expansion which from a longer point of view may not be a healthy development. On the other hand, the drastic curtailment of foreign purchases of our tobacco and fruits left growers of these commodities stranded with large crops on their hands. Through loans and purchases of the Commodity Credit Corporation, tobacco is being stored here equal in amount to the estimated depletion of foreign stocks abroad, such tobacco to be held until Allied purchasers are again able and willing to take American tobacco.

The Allied blockade of Germany has borne heavily upon the export trade of Latin American countries. Other outlets for their products or alternative sources of foreign exchange must be found, if our exports to these countries are to be maintained. The problem of our future trade prospects in Latin America is complicated by projected British trade policies, which may involve such practices as flexible exchanges, blocked balances, and discriminatory treatment. The British Government's purchases of available exportable surpluses of British Empire products and the resultant centralization of marketing in London not only has disrupted international markets and established trade channels for the commodities involved but also increased tremendously the bargaining strength of the British Government in conducting trade negotiations with smaller nations.

United States Exports by Countries,
September 1939 - January 1940

	: Sept. 1939- : Jan. 1940 1/:	: Percentage increase : over : Sept. 1938-Jan. 1939:	: January: : 1940 1/:	: Percentage: : increase : over : Jan. 1939:	: Percentage : increase : over : January-August : 1939 over 1938
Total	\$1,638.9	30%	\$ 357.9	70%	- 7%
Europe					
Norway	22.2	149	4.2	172	- 7
France	112.2	89	37.9	250	26
Sweden	52.2	81	6.5	50	29
U.S.S.R.	40.9	80	11.3	301	- 46
Netherlands	55.4	50	13.1	75	- 19
Italy	34.0	41	8.2	88	- 14
United Kingdom	260.6	10	66.5	57	- 5
Belgium	25.6	- 13	3.9	- 30	- 19
Latin America					
Brazil	44.8	66	9.1	84	12
Venezuela	31.1	65	6.6	92	2
Mexico	40.9	60	7.9	41	19
Argentina	42.7	44	10.1	225	- 36
Cuba	42.3	35	7.2	15	- 9
Colombia	24.3	31	4.8	40	24
Canada	247.9	45	38.9	46	- 12
Japan	123.9	18	28.2	60	- 11
Australia	33.4	32	9.6	179	- 20
Union of South Africa	30.9	3	6.8	41	-

Treasury Department, Division of Monetary Research.

February 20, 1940.

January 1940 figures cover domestic exports only.

United States Imports by Countries,
September-December 1939

(In millions of dollars)

	: : September- : December 1939: :	: Percentage : increase : over : Sept.-Dec. 1938:	: Percentage increase : January-August : 1939 over 1938
Total	\$ 879.1	27%	14%
<u>Europe</u>			
Norway	8.6	36	40
Belgium	21.9	34	63
United Kingdom	54.9	11	38
Italy	16.4	11	- 11
Sweden	17.4	4	- 12
U.S.S.R.	7.7	- 1	7
France	18.5	- 17	38
Netherlands	8.9	- 39	19
Germany	9.4	- 64	12
<u>Latin America</u>			
Argentina	23.1	51	53
Mexico	19.1	42	5
Cuba	34.9	37	- 13
Venezuela	8.6	31	11
Brazil	42.4	19	4
Colombia	17.5	11	- 7
<u>Asia</u>			
British Malaya	64.6	89	8
Netherlands West Indies	40.2	60	21
Japan	77.9	57	8
China	26.0	49	20
British Indies	21.5	16	13
Canada	139.8	42	24

Treasury Department, Division of Monetary Research.

February 20, 1940.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:15 this morning the Secretary told me that he had seen Senator Barkley yesterday evening. The Senator had told him that the data on silver which the Treasury had provided him had been received too late to be of any use. Furthermore, Senator Barkley is waiting to hear from the Secretary of the Treasury on silver. I told the Secretary that we had gotten together what data we had here on silver and had sent it to the Capitol, after a conference in Mr. Bell's office. I added that I had requested the Federal Reserve Bank at New York to prepare a detailed statistical report with respect to our silver purchases since the program of buying foreign silver began, indicating kinds of silver purchased, countries of origin insofar as possible, costs, etc. This report should reach us Monday morning.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:55 this morning Dr. White telephoned me that 400 drums of molybdenum were on a lighter in New York to be loaded on the S. S. Norbryn for shipment to Russia. Mr. Basil Harris had arranged for the lighter to be delayed, and was proceeding to New York. Dr. White stated that the Secretary desired that inquiry be made in this case as in the Climax case sometime ago. I told Mr. White that I had talked with the Climax people in regard to the earlier shipments because of my personal acquaintance with them as a result of their visits to Washington. I did not feel like calling the Utah Copper Company without specific instructions from the Secretary, particularly since the State Department is charged with supervising the moral embargo, and had already been on the ground when I made my earlier inquiry of the Climax. The Secretary talked with Dr. White and me about 11 o'clock and it was agreed that the matter should be taken up with Mr. Gray in Secretary Hull's office by me.

I immediately telephoned Mr. Gray and gave him the facts. At his request, I then spoke directly with Mr. Joseph Green and repeated my story. The latter promised to get in touch immediately with the Utah Copper Company and to call me back as soon as possible. He agreed with me that the Treasury should not cause any delay to the loading of the molybdenum which might give rise to any incident. Consequently, I told him that if I did not have a recommendation from him to the contrary before 12 o'clock, we would instruct Basil Harris to place no further impediment to the loading. I gave this information to Harry White, who was to pass it on to Basil Harris. I had no word back from Mr. Green until after 12, and we spoke together two or three times after that hour.

The following summarizes Mr. Green's conversations with New York, as he repeated them to me. He first got in touch with Vice President Ulrich of the Utah Copper Company, who was one of the molybdenum men who visited Washington at the time the embargo was being considered. Mr. Ulrich was quite indignant when questioned about the shipment on the Norbryn, asserting that his Company had given its word to abide by the moral embargo and had faithfully kept this promise. When Mr. Green mentioned that the shipment in question was reported to be in the hands of Whipple and Choate of Bridgeport, Connecticut, as agents of the Utah Copper Company, Mr. Ulrich said that this concern was positively not their agent. He told Mr. Green that he himself would call Whipple and Choate on this matter and report back to Mr. Green. At 12:25 Green told me that Ulrich had reported to him his conversation with President Gross of Whipple and Choate. Ulrich had sold 50 tons of Mos 2 to Whipple and Choate on December 18 on the distinct understanding that it would be converted into molybdenum oxide for use in this country and in January had sold 150 tons of the same material under a written contract stipulating that this was for domestic use only. It appears that two lots of 50 tons have been delivered by the Utah Copper Company to Whipple and Choate. One lot of 50 tons now enroute from Utah will be diverted and not delivered to Whipple and Choate since the Utah Copper Company considers that the latter have violated their contract. On the

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same ground, the Utah Copper Company will refuse to ship the final lot of 50 tons. This action on the part of Mr. Ulrich would certainly appear to prove his good faith.

After the preceding conversation with Mr. Ulrich, Mr. Green called Mr. Gross directly, and received, at first, very ambiguous and confused replies to his questions as to whether Whipple and Choate were violating the expressed wishes of its Government in regard to exporting molybdenum to Russia. At first Gross pled ignorance of the moral embargo, and would not identify the purchaser of the molybdenum which he had sold for export. Finally, when Green accused him directly of selling to the Amtorg, and giving such precise information as we had about the operation, Gross admitted selling to this Russian organization. He said he had sold 40 tons to Amtorg last week and 40 tons two weeks ago. He assured Mr. Green that he did not realize the Government's attitude. When this was made clear to him with some force, he promised Green he would not do it again.

A handwritten signature in dark ink, appearing to be 'J. M. A.', is located in the lower right quadrant of the page. The signature is stylized and somewhat cursive.

February 21, 1940

11:10 a.m.

Present:

Mr. Purvis
Mr. Bloch-Laine
Capt. Collins
Dr. Haas
Mrs. Klotz

Later:

The engine people and the machine tool people

HM,Jr: I have been seeing this morning the engine people and the tool people and I think, in fairness to the American aviation industry, you people ought to tell me today whether you are going to go ahead or not on these options, because you have got us all tied up in a knot.

Mr. Purvis: The main purpose of my visit and in order to make it easier, I have brought you this cable -- this is a secret cable and I am going to, if you don't mind, take off the top. They are typing another copy without the top.

HM,Jr: Can I read this out loud?

Mr. Purvis: Yes. It is very secret, but it's up to you. A copy will be over in a few minutes. I think it is perfectly all right. As for Capt. Collins I know it is all right.

HM,Jr: Well, Dr. Haas is with me and he's all all right too. If we could keep 60 securities a secret until it was released in London, we can do this.

(Reading) "British and French Governments have given anxious consideration to results of investigation of sale recently carried out by Pleven and Jacquin jointly with Greenly.

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"Allied Governments have agreed to combine to establish an increased potentiality in the United States for the manufacture of air frames and engines.

"They have further agreed that orders should be placed sufficiently substantial to attract active interest of firms concerned, and in case of engines, to ensure collaboration of "General Motors" and in case of air frames, combination of leading manufacturers on lines envisaged.

"Allied Governments are not, however, in a position to give in this telegram an immediate indication of number of engines and planes that, in addition to outstanding orders, and existing options, they will require from United States industry. There are certain technical questions, such as, types to be ordered, proportion between types, nature of armaments, and so on, which must first be settled, partly by further discussions here, but chiefly by further discussion in the United States with various interests concerned. There are also financial questions to be clarified, and settled. Colonel Jgoquin of the French Air Ministry, Sir Henry Self, British Air Ministry, and Mons. Pleven, will leave at earliest possible date to undertake further discussions with United States interests. They will report to you on arrival."

Mr. Purvis: Self arrives on Sunday. I know him personally.

HM, Jr: (Resumed reading) "Allied Governments are anxious that periodical deliveries should not be delayed beyond that hitherto contemplated. They suggest therefore, that you inform Mr. Morgenthau confidentially of their intentions as stated in preceding paragraphs. If he agrees, they suggest interested firms should be informed also, in confidence, through Captain Collins. They further suggest, leading firms which were consulted should be asked not to postpone any preparatory measures in the way of organization and planning that they might be willing to undertake without commitments for Allied Governments. Any planning (of) expenditure reasonably incurred would of course be reimbursed.

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"In any conversation you might have on the subject with Mr. Morgenthau, or representatives of American administration, the following points should also be emphasized as being of particular concern to Allied Governments.

"(a) Commitments of Allied Governments in respect of dollar purchases are already very serious, and will inevitably grow. Estimates given by the industry as they stand at present would involve extremely heavy drain on dollar resources of Allied Governments. Allied Governments would accordingly wish to be assured that increased potentialities they are seeking cannot be obtained at lower cost, and they trust the Administration will give them active support in this respect. They hope in this connection that any sums they may have to invest for plant expansion will not be subject to Income Tax."

Mr. Purvis: That arises from the negotiations with the powder people. I had to report that.

HM, Jr: (Resumed reading) "(b) It is essential that machine tool makers should be party to any understandings that may be reached in respect of engine and air-frame deliveries and that Allied Governments should be bradoyl assured of the compatibility of such deliveries with fulfilment of orders placed on French and British account for the supply of machine tools from United States.

"(c) Before any orders are actually placed for engines and air-frames, Allied Governments would wish to be assured that the supply of aluminum alloy which they are counting on obtaining from United States for their respective national programmes, and which you have communicated figures to Administration, will be forthcoming.

"Please convey to Mr. Morgenthau expression of keen appreciation of the two Governments for assistance he has already given, and of their hope that he will find it possible to continue to give us his valuable help.

"Kindly transmit copy of this telegram to Colonel Greenly."

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HM, Jr: This is not quite clear to me.

Mr. Purvis: In general, of course there is a great deal of meat in it and that's why I think a copy should be with you, but, in general, it means they are committed, subject to three points. Any financial difficulties, such as the tax thing -- hoping you will help, incidentally, with making sure that such prices as are in question are reasonable from your experience, etc. That's the financial type of difficulty. The machine tool question -- to make sure that it is not going to interfere and simply subtract somewhere else what they are getting here and to make sure that it does not subtract from deliveries at home and from existing deliveries in this country by superimposing something. But after discussion and proving to be all right, they have definitely decided to go ahead with a program and in order to make sure we get the quickest possible progress in regard to settlement of type -- which you, right at the outset, said would have to be settled very fast -- they have sent over a Mission of three men who can do the very great bulk of the deciding on this side, as to type and quantity.

Now, then, the other question that arises is that those representatives are due in a few days. Of course, we do not know about Mons. Plevin. But I think everything has been done to bring them quickly. Self decided to come by boat and he may yet prove right as several of our people recently have proved right by coming by boat instead of by plane, and in order to fill the gap between the time of their arrival, knowing that the program now is a pretty definite one, it is suggested that confidential advice might be given to those most interested as to the fact that something is definitely coming so that any expenditures of a minor nature which they would want to make in order not to lose time, could be authorized if they told us the amounts of them, with the understanding they would be reimbursed if anything went wrong later.

HM, Jr: Let me boil this down. The way I understand it -- let me clear one hurdle at a time.

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Mr. Purvis: Yes; quite.

HM, Jr: You people had a sort of verbal option on certain planes and engines which expired on February 1.

Mr. Purvis: Correct.

HM, Jr: You asked for an extension.

Mr. Purvis: Yes.

HM, Jr: Which was granted.

Mr. Purvis: Yes.

HM, Jr: And which has got the whole industry all tied up in a knot.

Capt. Collins: That expired, however, on the 12th -- the option.

HM, Jr: There has been no more extension?

Mr. Purvis: No more extension. We asked for ten days and did not get it in in time.

HM, Jr: That information was not passed on to the engine people.

Capt. Collins: About the 12th? Oh, yes! It was their date.

HM, Jr: They did not seem to know that this morning, because I said I would ask these gentlemen this morning whether all bets were off and if they did not have an order we would start immediately from scratch.

Capt. Collins: And they said yes.

HM, Jr: But they left me under the impression they were still tied up under the old option.

Mr. Purvis: We asked for ten days and we ran out.

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Capt. Collins: That arises in this way, Sir, that they have, on the hope that out of the delay there would come some definite information, have been sort of tiding, tiding, tiding along.

Mr. Purvis: Yes. They have done that on their own.

Capt. Collins: Yes.

HM, Jr: Did you transmit to them that as of the 12th everything was off?

Mr. Purvis: They made the date. You see, we asked for an extension for ten days, feeling it must come through in that time.

Mr. Bloch-Laine: In other words, we have no rights.

Mr. Purvis: We have no rights. We must start fresh.

HM, Jr: You have to start fresh?

Mr. Purvis: In effect, yes.

HM, Jr: Well, that's what I wanted to settle this morning. It's either a misunderstanding I have or they have.

Mr. Purvis: From our view, we recognize that we are late enough for them to be able to say we start new, but we hope for their good will in the process.

HM, Jr: If that's correct and the slate then has been wiped clean ...

Mr. Purvis: That's right.

HM, Jr: then if that is so, then I don't see where the engine people who are waiting, who, after all, are the crux of this thing, where they are in any

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position to spend any money, because they don't know what kind of engines you want. How can they go ahead and actually spend money out of pocket?

Let me do this. The aluminum thing, after all, does not affect them.

Mr. Purvis: No.

HM,Jr: And has that been cleaned up?

Mr. Bloch-Laine: Not yet.

Mr. Purvis: Not yet. It's in process of discussion. I saw Mr. Davis for the first time on Sunday, having worked through his organization and Capt. Collins having gotten it to a certain point, I saw him in an effort to get a little further.

HM,Jr: Never been cleaned up?

Mr. Purvis: We will manage.

Capt. Collins: But that was a matter that was arranged here after a meeting with Mr. Wilbur and the deal was then transferred to New York and Mr. Purvis said he would have somebody to work with it.

Mr. Purvis: As a matter of fact, deals so far that have been indicated to us are in that bottleneck situation that we were so worried about and do not open up the bottleneck. We have not given up hope that we will be able to get, in a reasonable time, but even the small quantity of the British order, 1100 tons, is going to be extended over an enormous period.

HM,Jr: Are either countries short of aluminum?

Mr. Bloch-Laine: Not aluminum in the raw material, but extrusions, bars and sheets, especially the metal they make for airplanes.

Mr. Purvis: It's the actual bottleneck of the aircraft production in England and France.

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HM, Jr: You gentlemen have never actually brought me in on this thing so I know nothing about it.

Capt. Collins: I know nothing either, because when we left the transaction was between your Purchasing Mission and the others.

Mr. Purvis: What you do know, Capt. Collins, is that you have from us the list of stuff which we want to get in April, May and June in order to cut out our bottleneck in aircraft production on the other side. That is in total, is it not?

Capt. Collins: That's right.

Mr. Purvis: And you facilitated us with the Corporation in getting what looked like an indication from Wilbur that things were going to be all right. Now, when we get into detail in our discussion in New York, it does not come through that way. As I told you on the telephone, the other day, we are still pressing them to try to get that bottleneck opened up. But that's been on the table some time.

HM, Jr: Not on my table.

Mr. Purvis: I think you will find I wrote you a letter about that in January.

HM, Jr: But there is nothing -- I have not been asked to handle this thing.

Mr. Purvis: I did write you a very urgent letter.

HM, Jr: Oh, you gave me a list of stuff. First, this mysterious person came over

Mr. Purvis: We have been carrying on with Capt. Collins.

HM, Jr: First, this mysterious Frenchman came over

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Mr. Bloch-Laine: Who was he?

HM, Jr.:that nobody could find. That's first. And nobody -- get Capt. Collins to tell you (Mr. Bloch-Laine) that story. No one was ever able to locate him. Then, after that, you gave me a list which came, I think, from Canada which I turned over, but do I understand that that list you gave me is what they want to buy today?

Mr. Bloch-Laine: On the French end, we have been proceeding in joint conference with Capt. Collins on the requirements and he has been helping us with the Aluminum Corporation to the best of his ability.

Capt. Collins: I had no indication that the deal as handled from New York was not going along satisfactorily except what I got from Wilbur, which said he was doing everything he could to meet delivery dates you gave him.

Mr. Purvis: This has happened in the last ten days.

Mr. Bloch-Laine: I do think they are exerting every effort, but so far the results have not been illuminating.

HM, Jr.: As far as I am concerned, I am doing nothing about it.

Mr. Purvis: No, quite; because Capt. Collins has done everything possible to open up the situation, but in New York we are not making the progress we had hoped.

Capt. Collins: Bear down on Wilbur on that, because Wilbur went up and spent three days in Pittsburgh and I thought obviously that this was going along satisfactorily.

Mr. Purvis: I went back in New York and told them that my recollection of the conversation with Wilbur -- and Capt. Collins' is the same as mine -- we must press for something a little more and then

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when I wasn't getting anywhere I made it my business on Sunday to see if I could get another attack on him. Davis is President of the Aluminum Corporation of America. First time I have ever met him. I got somebody to introduce me.

HM, Jr: Does not sound as though it was making progress very fast.

Mr. Purvis: It has been disappointing.

HM, Jr: The reason I bring it up at this time, if you say this program will not interfere with your requirements for aluminum -- I am not sure what your requirements are. Let's skip it for the moment.

Mr. Purvis: I don't honestly believe yet that it will interfere with this program, but it is something like the machine tools, that must be noted.

HM, Jr: Then the other thing that is a little bit to one side, you ought to know, especially if you are going into a new order, the Wright people say this morning they still have not closed a contract with England on the engine, the one you gave them after the lifting of the embargo. They have just a little left. They have your money. But no contract.

Mr. Purvis: Well, the drafting stage of that, I have not followed that in detail, but that has been turned over to the people down the line for two months.

HM, Jr: They say three months. They still have no contract.

Mr. Purvis: First time I have heard of any complaint from them of any kind. If they had any objection on anything of that kind, I think that should go on record with us.

HM, Jr: Well, they did not ask me to speak to you about it. But they were mentioning it as among their difficulties when the question of a new contract

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came along -- they still had not signed the old one. They did not ask me, but I am passing it along to you for what it is worth.

Mr. Purvis: I will check with my organization. You got the impression the delay was on our side of the formation of the contract rather than theirs?

HM, Jr: Yes.

Mr. Bloch-Laine: Some of those contracts have been discussed for a long time. Since the middle of December it has been decided and nobody complained. Those contracts are obligated.

Mr. Purvis: I think you will find this: that Curtiss will admit that they have a form of letter which is legally binding upon us from the outset.

HM, Jr: Well, I am passing it along. They say for three months; they said they hoped to sign it today.

The other thing they say is this: they hope that in any new contract for engines, that you do what the French have done, and contract directly with the engine makers and then turn the engines over to the plane builders, rather than give an order to the plane builders for the engine and then they have to furnish the engines to the plane builders. Now, our Army and Navy contract directly with the engine people and the French have done the same thing and I think they find that's better. You people give Lockheed an order for so many engines and planes ...

Mr. Purvis: It was so. It is no longer and our Lockheed order for supplying engines for the Lockheed out of a contract direct with Curtiss for 1200 engines. I believe I can say that all the Lockheed engines come that way. Unless that question was raised by Pratt and Whitney, who did not have a contract.

HM, Jr: He mentioned North America. He did

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not mention Lockheed.

Mr. Purvis: That, of course, is five months old, but the last contract

HM, Jr: But you have changed?

Mr. Purvis: I changed it myself, three months ago.

HM, Jr: What I am trying to do, in an informal manner, I am trying to give you some things that are bothering them.

Mr. Purvis: They are all good points and that one I have changed, because I felt the same way about it that they do.

(At this point, the Secretary invited the engine people to join the meeting.)

HM, Jr: What I am able to report, after talking with these two gentlemen, is this, which may or may not be news to you. I evidently did not quite understand, this morning -- did you people understand that as of February 12th all options expired?

Mr. Ward: There was an option in our British agreement

Capt. Collins: No. No.

Mr. Ward: that expired on the 11th. In our British agreement there was an option that expired on February 11th.

Mr. Gordon: Is this option for engines?

Capt. Collins: We are thinking of the "B" program.

Mr. Gordon: "B" program, there was an extension time from February 1 to February 10th. As I understand it, it was on Saturday.

Mr. Purvis: And no extension after that?

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Mr. Gordon and Mr. Ward: No.

HM, Jr: Then is it your understanding that the slate is wiped clean on all options?

Mr. Gordon: No. You mean on options on

HM, Jr: Are there any options with you other than -- I am talking now what I call the "B" order.

Mr. Gordon: There were no options.

HM, Jr: Well, agreements.

Mr. Gordon: We considered that that expired after the 10th. We have never heard anything, one way or the other.

Mr. Ward: That's our situation.

Mr. Gordon: We have tried to keep the situation open with increasing difficulty from day to day, and one case, particularly critical, because as I warned the Mission we would shortly be called on to make rearrangements and we are now in the midst of those rearrangements. Again, rearrangements will be made in a different manner than if the program does not go through.

HM, Jr: Was there some particular option for some particular engine that expired on the 11th?

Mr. Purvis: We let it expire because we thought it would interfere with "B".

Mr. Gordon: Naturally, the 11th happened to be on Saturday, and Monday was a holiday. On Tuesday we had no word and Tuesday midnight we considered the option as dead. On the French contracts there are options that carry through 1941 and which do not have to be exercised until June, so of course they are still open.

HM, Jr: But as to this "B" program, or the billion-dollar program, from what these gentlemen tell

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me, that slate is wiped clean. Now, do the aircraft fellows understand that?

Capt. Collins: I think so. Of course, that was an informal arrangement and it was only an estimate recently and they have all indicated they must start fresh in negotiations.

HM, Jr: Now, Mr. Purvis and Mr. Bloch-Laine, do you want to use this opportunity of telling the people, in strictest confidence and have them -- only this time we will try to keep it secret.

Mr. Purvis: That is a very important point.

They have decided -- the Allies -- to combine to establish a program for increased potentiality in airplanes and in engines. There are still some difficulties in regard to quantity and type. In order to clear those up as promptly as possible, they are sending over three men, Col. Jacquin, Mr. Pleven and a British Air Ministry man, Sir Henry Self, whom I know well. Those men are either en route on the Clipper, delayed. Self will be here, I think, on Sunday. He's coming by boat, having decided that's a little more sure.

Now, there are certain problems that will remain which you will appreciate, I think. Some of them are financial, including possible taxation, which I do not need to elaborate, I don't think, at this time. Second is, we have got to be sure that the machine tools output is available for such a program without interfering with existing orders, because otherwise it would simply be cancelling with one hand what you were setting up with another. And thirdly is the question on air frames, as to the aluminum situation for extrusions and so on. I don't think that that is a difficult one, but that we can only tell when we get down to actual requirements. But those things loom up as things that have to be put together. The people who can put them together are moving as fast as they can, but, as you know, our service from Europe is far from good. Self is on the boat now.

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Now, that is about the situation boiled down at this moment. If there are any particular circumstances which are facing any one of you which would require very prompt action and which you could cover up, going back to the talk which we had when the committee sat before, the talk at which I was present, if there are any particular situations which involve some expenditures which would enable you, in your opinion, to hold, until these gentlemen arrive, the situation a little further, we would like particulars of them and, if necessary, to approve them so they will remain in hand until the major commitment is made. Before that major commitment there may be some minor commitments we should make to enable you to hold your situation. That's about the story.

Mr. Gordon: What you are saying is of profound importance, because if we have the realization that you do intend to proceed, regardless of what our friends buy, you necessarily would need engines from the various relative limited number of engine producers and we can be guided accordingly in so far as we can control it, but go ahead on the assumption that something approximately what we talked about will eventually come through.

Now, I presume, as to these details it would be well for us to contact you in New York, -- you are normally there -- and tell you our problem. We have one or two points that are extremely critical and we feel that the quicker something is done to solve them -- I have in mind particularly a foundry -- the better for everybody involved it will be, because, for example, if we can handle it ourselves it just makes that much more capacity available to you and foundry capacity for this type of work is limited.

Mr. Purvis: I shall be very happy to do that.

Mr. Gordon: We have two properties under option. The cost of the option is negligible.

Mr. Purvis: You remember, that was my suggestion at that time.

Mr. Gordon: I am glad to say -- we had a great deal of difficulty with one of them, very serious diffi-

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culty -- but just a few days ago we actually have that under option and that is an important one, for the foundry, and it might be wise to proceed on that. We can discuss that with you in New York.

Mr. Purvis: Yes. If I may suggest, you have to remember that what might look to you like a little delay, on a program of this kind is understandable. This is something that is not just drawn out of a box, even from our angle, leave alone this and we must bear in mind that we are not delaying this one atom, but we have our problems too as well as problems of production and I would dislike very much if we got into a mood where we dealt with this thing "Why don't they give us an answer?". We both have problems and if you will recognize ours, I think we can work things out, but don't let's enter it on the basis that any of us are failing, because I don't think so. It is a difficult situation on the other side. At that meeting we did not think there was one chance in a million of it coming through on February 1.

Mr. Gordon: Frankly, the thing that has concerned me most -- I have talked to Captain Collins a number of times -- is not only keeping up the morale of our office who were all enthused over meeting the schedule we had tentatively set down, but particularly to conserve their energies and not be making useless schedules and plans, so we would prefer to keep that at a minimum until we know what we will do. Now in your tremendous training program, I think we can steer a middle course. One of our problems has an amusing side, which further makes our problem difficult, is that originally we expected the British option to be exercised. That option included some pro-rate amount of expedite fees. That amount of fees is gone.

Mr. Purvis: We would have liked to exercise it....

Mr. Gordon: The direct consequence of that is if I had the expedite amount which was involved in that it would be money enough to handle immediate problems. We talked it over and it's very involved and I think the best thing for us to do -- it's a specific problem -- is

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to contact you directly in New York with our problem and see what we can work out. I can say for the Wright Company, we will endeavor to hold our program in such a way that it will be a minimum -- the delay will cause the minimum amount of harm.

Capt. Collins: In the matter of secrecy on what we are discussing, I think the machine tools must be given some inkling of what may happen.

Mr. Purvis: I was going to suggest that too.

HM, Jr: Even before that Allison ought to be notified.

Mr. Purvis: I think if we just tell -- the engine makers and machine tools are more important than the bodies.

HM, Jr: I have told the machine tools when an order materializes we would let them sit in, but I don't see, at this stage -- let me just ask these two gentlemen here. With this in the wind, would you be placing any orders for machine tools or be doing anything about machine tools?

Mr. Brown: We should. If we have assurances of going through we will endeavor to have reserved for us certain types of machine

Mr. Purvis: You understand, quantities and types are not quite fixed.

Mr. Brown: Yes.

HM, Jr: Have they left town?

Mr. Gordon: They are all sitting outside.

HM, Jr: I think if that is the case, seeing I promised it, I think it would be very nice to invite them in.

Mr. Purvis: Certainly! We welcome it, Sir.

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HM, Jr: If you will, Harry, I would invite them in and if you don't mind, will you (Mr. Purvis) make the statement once more.

Capt. Collins: Are there any other questions of the engine people?

Mr. Ward: We have one important question which I think is more important to us than it would be to Wright or Allison and that is that we sub-contract to a greater degree than most companies. Our suppliers have the machine tool problem. They have the same problem we have. We would have to, in order not to cause delay in your program, at a very early date be permitted to have them called in -- the suppliers -- and have them arrange a comparable program as soon as we knew you were going ahead on a program of this nature.

Mr. Purvis: What I would like to do, if you can, here are these men actually turning up Friday or Saturday or Sunday. It seems if we can hold it until we can talk with them -- we are a little out of date; they have been sitting up days and nights and they, no doubt, have made considerable progress in their mind what the problems are of a technical kind and I think if we can hold it those four days, it will save time in the long run. But if there is some special problem you have and if you will tell us, I am sure we will listen.

HM, Jr: Before these other gentlemen come in, I would like to talk to Mr. Purvis and Mr. Bloch-Laine alone and I would like them to give me a chance to turn me down.

(Messrs. Brown, Gordon and Ward left the Secretary's office.)

HM, Jr: I can't give you assurance that this thing will be kept secret. Particularly the machine tools -- they love to tell the press. Therefore, let's be practical and I could do it to Mr. Gifford -- an amazing story -- the S.E.C. would not accept the list because they would not give me their word of honor that they would keep it secret, so Mrs. Klotz kept the list of 60 securities while I was

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gone because I pledged them. But they handled their publicity so well, and I asked them -- I don't know whether they took my suggestion -- to retain a public relations counsel. I advised them to do that and explain the whole thing, and I don't know whether he did it. The way he has gotten his publicity I think he must have retained a public relations counsel.

From your standpoint, knowing that this thing cannot be kept secret and you don't know how it is going to leak out, therefore my recommendation to you gentlemen is that whatever contact you have with the press I would tonight

Mr. Purvis: ... put something out.

HM, Jr: So that this thing -- in the first place, from a strategic standpoint of the Allies, it's good news.

Mr. Purvis: Yes; exactly.

Mr. Bloch-Laine: Capital!

HM, Jr: It's good news that you are going to do this thing. It hooks up with the sale of securities. You can hook both up.

Mr. Purvis: We can perfectly well say that. We can put the condition on it that there are certain difficulties to iron out.

Mr. Bloch-Laine: "We are contemplating doing it if it is feasible."

HM, Jr: But you can't tell 10 or 12 people, over whom I have no control, this information, which, from the standpoint of the stock market and everything else -- why not get it out in the way you would like to get it out rather than peddle it out. This head of this airplane Chamber of Commerce seems to have been doing most of the talking and he keeps saying we can sell all the airplanes and there are no bottlenecks.

Mr. Purvis: We were very worried by an article that this would be a bad thing for America.

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HM, Jr: This information at this time would be helpful from a strategic standpoint. It would also help Mr. Gifford in the sale of securities. I can't see that the suggestion is not good. Whoever helped him did a beautiful job. If it could be done so it will be in tomorrow's papers

Mrs. Klotz: Yes. A legal holiday.

H^M Jr: it would give them a chance to digest it and not leak out. I think it's good advice.

Mr. Purvis: I think we will adopt that and get busy and get it lined up. I wonder if we could ask these people to keep quiet for today.

HM, Jr: Definitely!

Mr. Bloch-Laine: Is it an announcement

Mr. Purvis: It will not be put out over a personal ...

HM, Jr: It's something that ought to be in tomorrow's papers or, at the latest, Friday. If I were in your position I would like to see something in tomorrow's papers.

Mr. Purvis: I might see what can be safely put out and then work out something.

Mr. Bloch-Laine: Do you think it should come from London?

HM, Jr: That I leave to you.

Mr. Bloch-Laine: Your advice is very good. After all, we are working in a foreign country.

Mr. Purvis: From an Administration angle, is there anything we should keep in mind on the way we did that?

HM, Jr: No. No. My guess is if you try to get it out on the other side, you will be waiting a week or so.

Mr. Bloch-Laine: But we may tell them it came from the other side.

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HM,Jr: Because I am so careful on these things. But you can't keep this secret. Therefore, why not put it out in the way you would like to see it put out?

Mr. Purvis: That's the only way one can ever do that thing.

HM,Jr: I take it you have a public relations counsel.

Mr. Purvis: We have our connection.

There is one other point before they come back which I think is bound to stick its head up in the early stages and it might involve the Administration. I am pretty sure when we come to types, this desirability of getting speed is going to be very important -- the desirability of getting that speed without too much emphasis on the power of engines.

HM,Jr: You are speaking of speed of delivery or of plane?

Mr. Purvis: Of plane. Therefore, such instruments as superchargers, which have been developed over here, which are secret, which would reduce the amount of engine effort power, might become amazingly important in getting them released. Do you think there is hope of our getting, our achieving that?

HM,Jr: Nothing is impossible. The decision rests with the President.

Mr. Bloch-Laine: I am glad to hear that because I left a query with Capt. Collins on superchargers and it came back a month ago saying they could not be released.

Mr. Purvis: Same as the Bell aircraft. We wanted to buy some as freely

HM,Jr: We gave you 25.

Mr. Purvis: No, I mean the Bell. We immediately found, not immediately but I have Capt. Collins' firm advise, under date of the 17th, saying he has taken it

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up and they won't release it. So, anyway, Capt. Collins suggested we look at it and we can't look at it.

HM, Jr: That's all right. You will have to go through that regular routine and then come to me and I will see what I can do for you.

Mr. Bloch-Laine: It has delayed four months anything we could do.

Mr. Purvis: I think we could have had instructions from the British or the French Governments specifically to take so many of that plane, but we can't get to the point where we can look at it.

Mr. Bloch-Laine: The military people say distinctly it's not for release.

Mr. Purvis: If I may say it in these four walls, we hear that the General in charge would be quite happy to accept instruction from higher up, but he does not intend to have it originate with him.

HM, Jr: You mean General Arnold or General Brett?

Mr. Purvis: Arnold. Maybe I should not say that. I understand there is no opposition provided he is told, distinct from his saying this himself.

HM, Jr: That lives up to the reputation of all Army officers. They are trained to be told.

Mr. Bloch-Laine: What is taught in the French is what is good in the Army is you don't have to think.

HM, Jr: I think how marvelous it would be to be a Lieutenant in the Army. Such peace!

Mr. Purvis: As a matter of fact, the same thing is going on with aluminum. We did not want to come and ask for any help other than what I have arranged until we exhausted everything. Capt. Collins did everything he could in starting it.

Mr. Bloch-Laine: We discovered things in the last

-23-

few days. There is a misunderstanding. He is not clear in his mind. "We are not in a position to tell you."

Mr. Purvis: After all, we must exhaust all the moves and it takes so much longer to exhaust than you ever expected.

HM, Jr: Question is who gets exhausted first.

Mr. Purvis: We are only just getting steam up.

(At this point, the engine and machine tool people joined the group.)

HM, Jr: If you gentlemen will sit down, what I have been telling you manufacturers of tools is that if there was any order from the French or English that this time you would be invited in to "sit above the salt".

Mr. Purvis: That describes it very well.

HM, Jr: So I think Mr. Purvis will tell you now, in confidence, and he's going to ask you to keep this for at least 24 hours, until he gets some time to give some sort of formal release, which they are proposing to do. I don't think it's asking too much to keep it secret for 24 hours, so Mr. Purvis, if you will proceed.

Mr. Purvis: We would ask you very specifically to give us that time because otherwise it will come out the wrong way and perhaps the wrong way for you and then some hitch will arise.

The Allied Governments have decided to combine together in achieving an additional program over here involving both engines and aircraft. Exact quantities and types are not yet settled and to some extent that will depend upon actual possibilities of achieving a program. There is a commission on its way over; three individuals, two of whom have already been here and another one is coming. They are striking the usual difficulties in getting here. They are on their way with a view to making as many decisions on this side -- they will have a high degree of authority. No doubt

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some references they will have to make. Difficulties to be overcome on this side of the water are some financial, taxation. There is a question as to whether this new program will involve difficulties from the machine tools end. We put that very high on the list. If it is not feasible from the machine tool end, it won't be done, because it's no use putting orders for new planes if it will interfere with aircraft over there. Another thing we have to worry about is in the air frames, under aluminum, but we don't think that is a difficulty, but I give it as an illustration of the kind of thing we have got to be sure of before we know that what we want to do now definitely is feasible. So that we shall be prepared to go into huddles as soon as these gentlemen arrive. And, in the meantime, if there are any specific or particular problems that are necessary for discussion, Mr. Bloch-Laine and I are available, either here or in New York, with you individually or as a group. Specific problems, although I don't suppose there will be many of those. That is about the story, from our view.

HM, Jr.: Would you gentlemen in the machine tool business like to ask any questions? This would be a good opportunity.

Mr. Gaylord: The first question is what tools do you need and I presume we will get that answer when decision has been reached

(Some conversation between several of those present which was not audible.)

Mr. Ward: Is this contemplated purchase program about in the original size, of the original one we talked about?

Mr. Purvis: I have to be careful on that. As it comes to us, it is a decision on the part of the Allies to make a combined superprogram over and above the present for engines and airplanes, but size and types, no doubt questions in regard to type have arisen, no doubt, as a result of the fact that Jacquin has been over and seen what is there and the Air Ministry in London has some ideas and there are some questions of type involved, be-

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cause we want to be fully advised as to quantities. I suggest to you it's an important and substantial program, but when it gets to actual quantities I don't think we shall know until we know how feasible it is to work out the machine tool and engine and aluminum problems.

Mr. Ward: The reason for asking the question at this point, primarily the main reason is, we have the machine tool industry, as for Wright, Allison and ourselves, those machine tools which we will probably need for a program roughly outlined originally. Obviously, as Mr. Gaylord brings out, for them to give us specific information on which to found our deliveries, in turn we have to have something more specific than that. Up to date they have had opportunity of generally exploring what it would mean to their industry to turn out tools and, roughly, quantity and types which we gave to them on a preliminary memorandum. I doubt there is anything more we can do.

Mr. Purvis: Could that be reduced to some terms so that when the arrival of these gentlemen takes place we could give them a sort of memorandum of what that picture is, because you are working on the basis of certain quantities. Those I take it are top quantities now, because feasibility may be the answer. Feasibility from the point of view I have mentioned. I think if we knew what your problems were on that program from the machine tool end, as you have it today, and could have it in memorandum form for the arrival of these gentlemen, one thing would be on the table straight away. The whole program will have to be handled with a great deal of care. I think it can't be done in any hit or miss way.

Mr. Ward: This memorandum that we gave was for, we shall say, study, based largely on broad factors which we have already explored in previous programs. That program, in turn, we have to apply a factor to estimate the needs of suppliers who are supplying tools, so obviously the program is not in any sense a finished work.

Mr. Purvis: Not a bit.

Mr. Ward: I can't say what the machine tool

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industry has discovered so far in respect to that program.

Mr. Lovely: You have a specific list on that?

Mr. Berna: For Pratt-Whitney only. Suppliers are the big question mark and they apparently are equivalent to the needs of the engine builders.

Mr. Ward: Taking Pratt-Whitney as an example, has any work been done to explore...

Mr. Berna: Nothing.

Mr. Ward: Then there is nothing to give Mr. Purvis.

Mr. Berna: You have to make a complete survey.

Mr. Ward: What Mr. Berna is saying, for the machine tool industry, they can't give the engine people a platform to work on until you give us a platform.

Mr. Purvis: We will get to the issue in an open way instead of having to handle it with secrecy as we did before.

Mr. Ward: I would like to make this last observation: That while those steps were covered very quickly here in a few sentences, it involves a great mass of work and with everybody turning to it still gives a lapsed period and not anything that can be done in two or three days. I am not trying to give you an answer, but trying to point out what isn't the answer and the machine tool people would have to tell us how long they need to explore the situation, but I imagine it's a period of considerable lapsed time.

Mr. Purvis: At least we will get some elementary idea of types and quantities over and above what we are thinking of early in the coming week. Then we shall have to proceed, it seems to me, on the basis of trying to assess the machine tool makers and the aircraft to see what are the bottlenecks and concentrating on that first. But there will be certain bottlenecks of tools difficult

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to make which will be concentrated on first, and then move out.

Mr. Gaylord: I don't want to give you any false hope, but to get the bottlenecks you have to get your lists first and then select the bottlenecks.

HM, Jr.: I don't think you can accomplish much more today other than that you know that there is an order coming.

Mr. Purvis: That's really what it gets to, provided it is feasible and practical to work it out.

Mr. Lovely: Could we do anything today in starting this detailed inquiry in our own plants?

HM, Jr.: You had better wait for 24 hours. It's all right tomorrow; better wait until Friday.

Mr. Gaylord: I am wondering if you can suggest words that we might use in talking to our members to emphasize the importance of this program.

HM, Jr.: Well, with ladies present, I am sort of handicapped.

Mr. Gaylord: If you will just leave those blank, it will help me. I drove mules once.

HM, Jr.: If you did, use everything that you learned.

Mr. Purvis: We can view it with the potentiality of building up the aircraft industry in this country.

HM, Jr.: Oh, yes! And I have explained to everybody that domestic consumption, the value for our own National defense has been played down and I think that's all to the good and it's something -- certainly, I appreciate what it means to build up our own industry at your expense.

Mr. Gaylord: Then "we believe -- the Administration believes this affords an opportunity to build up our own National defenses and public citizens to make every

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sacrifice necessary".

HM, Jr.: I don't think I would put it -- I think this is good business for you manufacturers; it's good business from the standpoint of National defense, because it enables us to key up our airplane production to a basis that in case the time should come -- and we all hope it won't -- if we should need this production for ourselves, it's there. But I don't think I would put it on a patriotic basis. I think the profit motive is more inducive -- I will leave it to you. All I can say to you is I would not be sitting here for the President, looking at it from domestic economy and National defense if we did not think it was good to take these orders. The Administration feels it is good from their angle to accept these orders and I am sitting here trying to be helpful so that when the order materializes to see that it flows as easily as possible without disturbing our National economy. Up to now the whole question of cost of living has been kept down and we don't want to see these peaks in a few industries go up and distort everything. It's very important. If I had to do it, I would not appeal to people's patriotism. It's just good commonsense.

Mr. Gaylord: The common sense ground is not a very sound foundation.

HM, Jr.: Well, you use your own judgment and whatever mules respond to, you use it.

Mr. Lovely: One hitch is we must not treat the Allies' purchases as we would the mules. Is there anything that you might say at this time, probably there isn't, but that question will come up later about priority on the program here as opposed to the program on shipment of machine tools abroad.

Mr. Purvis: I would say if it would interfere with aircraft production on the other side, there would be no question of priorities. Priority would be to continue when present channels make sure that all moves, the timing of which is so important

Mr. Lovely: Priority in your mind is on commitments already made.

Mr. Purvis: Oh, yes! Both in aircraft and machine

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tools and there is no question in that.

Mr. Bloch-Laine: There is no question in the minds of the Governments. If we had to choose between machine tools and engines, we would choose machine tools.

HM,Jr: All right, gentlemen.

(All left except the Treasury people.)

HM,Jr: (To Capt. Collins) You phone all the aircraft manufacturers and tell them on the 24-hour basis and tell them to keep it quiet. It is all the more important now that you get the Army and Navy to give me a survey of what's on order for Japan and Russia.

(Mr. Cochran came in.)

HM,Jr: (To Mr. Cochran). Merle, I want you to take these gentlemen into your office and draft a cable for me to the President telling them what happened this morning. I would start in, first, we have made progress on the back orders, what that situation is; and then about this new order and the fact that -- well, I would give him a summary and emphasize on the new order the thing that is coming. After all, this is a cable that Purvis got and these are his instructions and I want it to go to the President and inasmuch as this will break tomorrow morning, I don't see why Mr. Hull

Capt. Collins: What about me?

HM,Jr: You had better go tonight (to Florida for a vacation) and when this thing breaks we can get you back. When they really begin to sit down, I will send for you. I won't send for you until somebody has to sit down and coordinate.

oOo-oOo

February 16, 1940.

British and French Governments have given anxious consideration to results of investigation of sale recently carried out by Pleven and Jacquin jointly with Greenly.

2. Allied Governments have agreed to combine to establish an increased potentiality in the United States for the manufacture of air frames and engines.

3. They have further agreed, that orders should be placed sufficiently substantial to attract active interest of firms concerned, and in case of engines, to ensure collaboration of "General Motors" and in case of air frames, combination of leading manufacturers on lines envisaged.

4. Allied Governments are not, however, in a position to give in this telegram an immediate indication of number of engines and planes that, in addition to outstanding orders, and existing options, they will require from United States industry. There are certain technical questions, such as, types to be ordered, proportion between types, nature of armaments, and so on, which must first be settled, partly by further discussions here, but chiefly by further discussion in the United States with various interests concerned. There are also financial questions to be clarified, and settled. Colonel Jacquin of the French Air Ministry, Sir Henry Self, British Air Ministry, and Mons. Pleven, will leave at earliest possible date to undertake further discussions with United States interests. They will report to you on arrival.

5. Allied Governments are anxious that periodical deliveries should not be delayed beyond that hitherto contemplated. They suggest therefore, that you inform Mr. Morgenthau confidentially of their intentions as stated in preceding paragraphs. If he agrees, they suggest interested firms should be informed also, in confidence through Captain Collins. They further suggest, leading firms which were consulted should be asked not to postpone any preparatory measures in the way of organization and planning that they might be willing to undertake without commitments for Allied Governments. Any planning (of) expenditure reasonably incurred would of course be reimbursed.

6. In any conversation you might have on the subject with Mr. Morgenthau, or representatives of American Administration, the following points should also be emphasized as being of particular concern to Allied Governments.

7. (A) Commitments of Allied Governments in respect of dollar purchases are already very serious, and will inevitably grow. Estimates given by the industry as they stand at present would involve extremely heavy drain on dollar resources of Allied Governments. Allied Governments would accordingly wish to be assured that increased potentialities they are seeking cannot be obtained at lower cost, and they trust the Administration will give them active support in this respect. They hope in this connection that any sums they may have to invest for plant expansion will not be subject to Income Tax.

(B) It is essential that machine tool makers should be party to any understandings that may be reached in respect of engine and air-frame deliveries and that Allied Governments should be broadly assured of the compatibility of such deliveries with fulfilment of orders placed on French and British account for the supply of machine tools from United States.

(C) Before any orders are actually placed for engines and air-frames, Allied Governments would wish to be assured that the supply of aluminium alloy which they are counting on obtaining from United States for their respective national programmes, and which you have communicated figures to Administration, will be forthcoming.

8. Please convey to Mr. Morgenthau expression of keen appreciation of the two Governments for assistance he has already given, and of their hope that he will find it possible to continue to give us his valuable help.

9. Kindly transmit copy of this telegram to Colonel Greenly.

February 21, 1940

Sent via Coast Guard

The President

3 p.m.

S. S. Tuscaloosa

STRICTLY CONFIDENTIAL

At a meeting in my office this morning at which were present representatives of airplane engine manufacturers and a committee representing the machine tool builders, the engine manufacturers reported that while deliveries of tools are not up to the original delivery schedules, substantial progress has been made in speeding up deliveries. A very good cooperative spirit now exists between the two industries. The engine people feel that everything possible is being done by the machine tool companies. In response to my direct question, the engine manufacturers stated they now believe they can meet their contractual delivery dates on both French and English existing orders. Weekly progress reports will be made to me concerning deliveries of machine tools now on order.

Mr. Purvis and Mr. Bloch Laine joined the meeting and Mr. Purvis read from a cable that he had received in which it was stated that France and Great Britain had decided to join in a substantial program for the procurement of airplanes and engines, that representatives of both countries were expected to arrive in this country in a few days, and upon their arrival would discuss the types of planes and engines desired and deliveries which might be had. Upon a decision on this point would depend the size of the forthcoming program. Such program, however, would not be permitted to interfere with existing orders placed by them in this country for machine tools, engines and aluminum to be used in the manufacture of planes abroad.

~~Captain Collins is informing the manufacturing concerns in regard to the foregoing.~~ The Allied Purchasing Commission plans to issue a press release thereon tonight or tomorrow morning.

(Signed) H. M. Jr.



HMC:smc

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(Signed) H. W. Jr.



HWC:amo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Haas *GA*

Subject: Notes on meeting held in Secretary Morgenthau's office on February 21, 1940, at 9:15 A.M., on ways and means to secure adequate machine tools in order to increase sharply the production of airplane engines in the United States.

Present: For the entire meeting:

Secretary Morgenthau

Mr. Myron B. Gordon, Vice President, and
Mr. P. W. Brown,
Wright Aeronautical Company.

Mr. J. C. Ward, General Manager,
Pratt-Whitney Engine Company.

Captain Collins

Mr. Haas

Coming into the meeting at 10:20 A.M.:

Mr. Robert B. Gaylord,
Mr. John E. Lovely, and
Mr. Tell Berna, representing the
National Machine Tool Builders' Association.

The Wright Aeronautical Company submitted a written progress report which the Secretary read. This report indicated that machine tools on order for the company now showed a total of 1,034 "machine weeks" overdue. This represented an improvement of 270 "machine weeks" over the situation prevailing at the last meeting with the Secretary. The report also showed that at this time, according to original delivery schedules, 72 percent of the total order should have been delivered whereas deliveries have amounted to 44 percent.

Secretary Morgenthau -2-

The Secretary asked Mr. Ward, of the Pratt-Whitney Company, if he could supply figures on the same basis. Mr. Ward said that he did not have figures compiled on that basis as their machine tool problem was somewhat different than that of the Wright Aeronautical Company. He pointed out that the Pratt-Whitney Company's apprehension concerned certain key machines whereas the Wright Aeronautical Company's problem was in a large measure that of securing machines for training purposes, etc. The Secretary asked Mr. Ward for the number and names of the companies who manufactured the so-called key machines whose deliveries were giving his company trouble. Mr. Ward said there were 5 companies but he did not recall off-hand all their names. He said that these companies had moved up their delivery schedules recently. Mr. Brown mentioned that the Bullard Company (Bridgeport, Conn.) had moved up delivery on a machine tool order 4 months.

The Secretary asked Mr. Gordon if his company was going to be far behind on its French and English deliveries under existing contracts. Mr. Gordon said he felt they now could meet their contractual delivery dates. These, he said, were somewhat later than their own shop schedules. The Secretary asked Mr. Ward the same question. Mr. Ward said he felt his company could probably meet its contractual delivery schedules, that its production was ahead of schedule into April but after April much depended upon the machine tool order situation. He said by July their engine production would equal 400 to 500 engines per month. Mr. Gordon said their production in July would be about 234 engines per month.

Both Mr. Gordon and Mr. Ward said that as a result of the conferences initiated by the Secretary the whole attitude of the machine tool builders had greatly improved and that there was now a spirit of cooperation. Both felt the machine tool builders were actually doing everything they possibly could to improve the situation. Mr. Ward indicated that the Machine Tool Builders' Association had set up a special committee to deal with the machine tool order problem of the airplane engine manufacturers. The Machine Tool Builders' Association had advised the engine companies to get in touch with the individual machine tool company in case of any delivery difficulty and if a satisfactory arrangement could not be worked out the problem should then be turned over to the special committee set up by the Association. He indicated that the problem had not been solved but that certainly very definite progress had been made.

The Secretary asked Mr. Gordon how the Bullard Company was able to shorten the delivery date on the order which he mentioned. Mr. Gordon said he was not positive but on the basis of some information he had received he thought they had diverted deliveries from some Russian orders.

Secretary Morgenthau -3-

The Secretary told the representatives of the Wright Aeronautical Company and the Pratt-Whitney Company that he would like to have them furnish him with a weekly progress report. The Secretary indicated that he was leaving any policing which was necessary to the industry itself, and that if the engine manufacturers felt they wanted another meeting called they should get in touch with him. The Secretary added that if he was not satisfied with the progress being made he would call a meeting. In the meantime, he said, the weekly reports would keep him informed of progress being made.

Mr. Gordon said that something should be done about this new British-French program, as he did not think it was fair to keep the machine tool men and others in suspense. He said he thought the issue should be forced as to what the Allies were going to do with regard to the prospective program. Mr. Ward agreed and said they should be told that manufacturers in this country could not hold the situation open any longer. The Secretary said he had not seen Mr. Purvis for two weeks, but understood he was in the city and would call him over now. The Secretary said he thought Mr. Purvis should be told that all bets were off on the so-called Big program, and that everything would start new at the time the Allies made up their minds.

Mr. Gordon, in what he called a side-line comment, mentioned that in connection with a British order for 1200 engines the nearest thing he had to a contract was one short letter and that his company had been unable to get a complete contract signed by the British after 3 months negotiations. He added, however, the British were advancing money sufficient to cover all the financial outlays which his company was making. He said the company had tried to use its French contract as a pattern for the British contract, but that the British had raised many questions with regard to cancellation provisions, etc. The Secretary asked if the company was going ahead on the production despite the contract difficulties. Mr. Gordon replied that it was, as the British advances kept them covered financially at all times.

Mr. Gaylord, Mr. Lovely, and Mr. Berna, representing the Machine Tool Builders' Association, came into the meeting.

Mr. Gaylord reported for the machine tool builders and said that he thought the delivery situation had improved and that they were now taking care of the great bulk of orders which had been causing difficulty. He said that deliveries were not up to original hopes in all cases but that the engine manufacturers were familiar with these instances. He added that if certain cases had not by now been dealt with to the satisfaction of the engine manufacturers, the Association would be glad to take these sit-

Secretary Morgenthau

-4-

uations up again and apply even more radical measures. In general, he said, he thought the problem was now well in hand.

Mr. Gaylord asked the Secretary if the Government was willing to place an embargo on Russian machine tool shipments. The Secretary explained that he was waiting for an inventory of machine tool orders in this country for delivery to Japan and Russia. As soon as this inventory had been completed, the President would be in a position to consider the matter, the Secretary said. He added that the factors determining what would be done would be the volume of Russian orders in this country and how strategic these machines were. The Secretary indicated that this matter constituted a different problem, and that he wanted at this time to consider only the problem of the airplane engine manufacturers.

Mr. Gaylord told the Secretary he thought these conferences had performed a very real service, and that now the two groups could meet, industry with industry, and work out their difficulties.

The Secretary said he would like to leave a word with the group. He said that the engine manufacturers were going to supply him with a weekly progress report and if the engine manufacturers were not satisfied with machine tool deliveries they would get in touch with him. The Secretary told the machine tool people that the same applied to them, that he was available at any time to be of assistance in this problem. The Secretary mentioned that as soon as any information became available on the new Allied order, the machine tool people would be informed immediately.

The Secretary adjourned the meeting for ten minutes, awaiting the arrival of Mr. Purvis and Mr. Bloch-Laine, of the Anglo-French Purchasing Commission.

February 21, 1940

The attached is a note which the Secretary handed to Mrs. Klotz at the 11 o'clock meeting this morning, between Mr. Purvis, Mr. Bloch-Laine, the engine people and the machine tool people.

This meeting is historic.
 It may be the deciding
 factor in having the
 allies win the war.

10.	94.5	10.	"	Great Dept
10.	101.9	10.	"	ELECTRIC POWER
		10.	"	Lumber
		10.	"	Miscellaneous Commodities
		10.	"	All other
		10.	"	Cotton Mill Production

MIT Business Index in Feb. 17, 1942. is 101.9
previous week on basis of above 5 items.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

MA 307

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4 o'clock this afternoon I delivered personally to Mr. Hull a copy of the memorandum dated February 16 which Mr. Purvis handed to the Secretary this morning. I also delivered to Mr. Hull a photostat copy of the secret notes on the British foreign exchange position handed to me under date of February 15 by Mr. Pinsent.

The Secretary of State asked me to thank Secretary Morgenthau for these documents. In connection with the British exchange question, Secretary Hull told me that he was pressing the British very strenuously to do something about buying American agricultural products. He stated that the British were cutting out about 95% of the imports of American agricultural products envisaged by the Trade Agreement, and were now buying replace products from the most distant colonies or the most insignificant foreign countries. While appreciative of the British need to economize on foreign exchange, the Secretary hoped the Treasury might assist in impressing upon the British that their present policy will do much to alienate the sympathy of America for England and may contribute seriously to an isolation tendency in this country.

F. M. R.

(Mr. Foley and Mrs. Klotz present when Secretary dictated the following, but Foley was not present when the Secretary dictated the last paragraph.)

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February 21, 1940

Bill Douglas had lunch with me.

I first stated to him how I felt about the principles and that the S.E.C. should accept this thing and I said it is very interesting to note that in all of the publicity not once has the consumer of electricity been mentioned -- it's always the stockholder and the bondholder and the individuals who are going to get the receivership, and not once the consumer, and that appointing these men, who pays for their \$50,000 salaries and the cost of reorganization? The consumer.

Douglas was in complete accord with me as to the principles. He said last night that Frank came to see him for the first time and told him all his troubles and that either today or tomorrow the Judge was going to appoint Hanes, and somebody from Pennsylvania (some utility man), and a former Under-Secretary of the Treasury, Dean Acheson.

Frank told Douglas that he, Frank, was absolutely opposed to the S.E.C. taking this. Douglas was surprised when I told him Frank had told us twice that he had no opinion on the matter.

Douglas' attitude about Hanes is if Hanes were here he would have a talk with him as a friend, because he's very fond of Hanes personally, and tell him to get out because somebody like this lawyer Krause, who had been in this thing before, would machine-gun Hanes and the chances are when the three men come up for confirmation before the Judge that the other two would get confirmed and Hanes would not and he thinks Hanes is making a great mistake. Furthermore, if Hanes does take it, he ought to accept only \$10,000 a year.

Douglas wanted to know whether he could not get word to the Judge to postpone action until after the President got back, but I told him, in strictest confidence, that I thought this was useless because the Judge had already spoken to the President.

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The thing that bothered Douglas most was that he said this will demonstrate to the public that when there is a lot of patronage, etc., that the New Deal is no different than the Old Deal. He thinks that Hanes is an innocent party and that the Associated Gas crowd, plus Homer Cummings (whom he said, incidentally, has done more damage to the Administration than any other person connected with it) plus the Chase and Lazard Freres got together and have sold Hanes a bill of goods and that they have got to get unquestionably in Judge Libell's chambers and that Libell is not only a Tammany judge but appointed by Homer Cummings and that they have divided up the pap among them and that Hanes will not be in there very long before he will find this out that he has been used and he won't be able to do anything about it. Too late. He does not believe that Hanes worked for this, but that this thing was put over on him.

His thought was that if there was some way to get S.E.C. to accept this on a 90-day basis -- he said this has been done before -- and try it and if they then find they can't make it go they can always relinquish it, but he said the thing to do was to get the finest bunch of lawyers from all the Departments -- 30 to 35 attorneys -- and put them in at New Deal wages and make a demonstration of what can be done in an economical way. He said "You don't control the Comptroller's office, but you have the responsibility, and they can set up the receivership and save a lot of money."

I asked him the reason why S.E.C. had not done something before on Public Utilities and he said it took them three years to clear up the legal aspects. I said, "How long has it been cleared up?" and he said a year and a half.

He said he had talked -- I gathered yesterday, or within the last day or so -- to Ben Cohen and he said in his whole existence he has never heard Cohen so hysterical or talk as hysterically as he did and this is his life's work and he said the bitterness which he expressed towards S.E.C. and towards Frank and Leon Henderson was just unbelievable. He said he never mentioned me at all. He said it's all directed against S.E.C.

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He said that Frank said that if the President forced him to take it, that he and Henderson would resign. So I said, "Which is more important, the Public Utility Act or the resignation of these two people?" He said, "Of course, the Public Utility Act, but the two men will never resign."

So I said the suggestion I have to make is a little bit different. I said I did not realize that these three men will have to come up for confirmation and when they did before the Judge, could not Justice and Treasury present a very careful, statesmanlike letter stating why we both recommend SEC take it and in this document incorporate the principles of the Public Utility Act and the whole business and that should be presented at that time. The trouble with that is, he thinks, it will be too late because it will be a question of confirmation of these three men and he said he thinks two of them will be confirmed, but Hanes won't and he said they are now threatening that if Hanes does not get it, Libell is threatening to put in Al Smith.

So I told him that the thing that is so surprising to me is since I left Frank has not communicated with the Treasury at all; that we just don't know what's going on. He said, two or three times, "It's just unbelievable." And I said there was some release on Saturday and we had to get it from the newspaper men.

I told him how "magnificent" was the word I used that Foley had been in this whole matter and he said he was very pleased to hear it. I said he could not have been more loyal to the Treasury than he had been.

Douglas is very much upset about the whole thing and seems to be putting his whole mind on it and he dropped a hint that the Supreme Court may get in on this.

In telling Douglas all about this, I pointed out that the President himself had said he was opposed

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to the S.E.C. taking it, so Douglas said that possibly that explained why when Bob Jackson called him about the matter that Bob Jackson was kind of wishy-washy about his position in relation to the S.E.C. taking it. So I said I knew that the President did not want them to take it, but I differed with him and when I differed with him I did not hesitate to say what I thought, and Douglas' answer was he did not think it would be very difficult to win the President over to having S.E.C. do it. And Douglas repeated at least three times that if he could only get hold of Hanes he was sure he could persuade him to drop out. And I then told Douglas about the offer I had made to send Frank and Foley to New York to ask the Judge to postpone any action until I returned and that I then would sit down and discuss the matter with Hanes, so he said he thought that was absolutely fair and nobody could ask for anything more than that. I also told him that when Frank told Krock that we had known in advance of my statement in regard to S.E.C. taking it that the S.E.C. did not want it, that that was a lie. That seemed to surprise Douglas.

(Mr. Foley left at this point and the Secretary dictated the following which he said he had been sworn to secrecy not to reveal.)

Douglas left me to keep a 2:15 appointment with Justice Stone because the New York Court comes under Stone and he is going to try to get Stone to call up Libell and, as he put it, "throw a scare into him". He told me he would call me up after he has seen Stone and tell me the result of his conversation.

oOo-oOo

JR

GRAY

London

Dated February 21, 1940

Rec'd 1:05 p.m.

Secretary of State,
Washington.

432, February 21, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. It may be of interest in connection with my No. 209 of January 23 that the British Treasury and the Bank of England are now engaged in working out the mechanism whereby the foreign exchange arising from the exports of certain products such as rubber, tin, whiskey and jute from the British Empire sterling area shall definitely accrue to the British fund. It is now planned to apply this system not only to the United States but to Holland, Belgium, Switzerland and the Americas with the exception of the Argentine. As in the case of the Argentine there is a payments agreement with Sweden (my telegram No. 34, January 5, 7 p.m.) which ensures a sufficient control mechanism and although the payments agreement with Denmark and Norway have not yet been concluded negotiations are sufficiently advanced to warrant their omission of the Scandinavian countries.

In

-2- #432, February 21, 5 p.m., from London.

In attempting to work out even this partial exchange control system applicable to the export trade the British monetary authorities are finding it "an awful lot of hard work", the main difficulty being to arrange the mechanism on the banking side. The public announcement of this step may be expected in a couple of weeks.

Two. With reference to the last paragraph of my 290 of February 1, Keynes in a speech at a Fabian Society luncheon today outlined certain modifications in his compulsory savings scheme which are to appear shortly more fully in print. The principal innovations are (1) advocacy of state paid family allowances of five shillings per week per child up to the age of fifteen which the abolition of income tax exemptions for children he estimates would cost pounds one hundred million per annum; and (2) a post war capital levy as the cause for repayment of deferred income and fighting services war bonus. He noted that by this means the exigencies of war could be seized as an opportunity for a step in social reform in the distribution of wealth, but emphasized that a capital levy during the war would be as undesirable as it would be desirable after the war. He again stressed the inadequacy of voluntary savings as a means of avoiding inflation and the danger that dependence on such an
expedient

-3- #432, February 21, 5 p.m., from London.

expedient would permit inflation insensibly to occur, asserted that the recent announced policy of pegging down certain food costs by government subsidy (see my 290, February 1 and 350, February 9, 7 p.m.) was desirable only as part of a comprehensive policy which must include some such scheme as his own or a sales or wage tax. The new version of Keynes' scheme will doubtless include some modifications of the statistical estimates published in the economic review for January on which his original scheme was based.

Three. The revenue and expenditure figures with but six weeks to go before the end of the financial year indicate that expenditure is falling below budget estimates and revenue is exceeding them. The character and conduct of the war to date is certainly responsible for the former condition and no doubt affects the latter. The supply services have spent an average of pounds 27 million a week during the 46 weeks of the fiscal year and an average of about pounds 41,000,000 since the beginning of 1940. No doubt the rising trend will continue and the last few weeks may well be heavy but given a similar rate of expenditure during the weeks of the budget, ^{year} total expenditure would amount to about pounds one billion seven hundred sixty million against

Simon's

-4- #432, February 21, 5 p.m.; from London.

Simon's estimate of pounds one billion nine thirty nine million three hundred thousand. Total expenditure to date is pounds one billion four ninety-seven million one hundred nineteen thousand. Furthermore total receipts at pounds eight seventy-seven million eighty-five thousand show an increase of pounds one hundred six million four hundred thousand over the corresponding period of last year and if receipts during the remaining six weeks merely reach corresponding 1939 levels Simon's total estimate of pounds nine ninety five million one hundred eighty thousand will be exceeded by nearly pounds forty million.

JOHNSON

HPD

RECEIVED
FEBRUARY 21 1940
10 00 AM

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

116

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 9 o'clock Lieutenant McKay told me that the Secretary desired that I arrange for Mr. Gifford to come to see him Thursday morning, February 22, at 11 a.m.

At 9:05 I spoke with Mr. Pinsent. At his suggestion, I called New York directly, Mr. Pinsent advising me that Mr. Gifford was to be found either at 23 Wall Street or at the offices of the British Purchasing Commission, where he was expected to take space beginning today. At 9:20 I talked with J. P. Morgan and Company, but was informed that I should telephone Hanover 2-2460, the British Purchasing Commission, where Mr. Gifford was to be found. When I spoke with the British Purchasing Commission central at 9:30 she could not find Mr. Gifford. At my request, the secretary of Mr. Purvis tried to get in touch with Mr. Gifford, but found he had already left the Hampshire House (Circle 6-7700) and had not yet reached his office. She promised to get the message to Mr. Gifford to the effect that Secretary Morgenthau desired to see him here at 11 o'clock Thursday, and to call me back to confirm.

At 12:05 I telephoned Mr. Purvis' secretary again, not having heard from her. She stated that she had given our message to Mr. Gifford; that he had certain plans for tomorrow which he is endeavoring to change; and that I shall undoubtedly hear from him as soon as he learns whether he can manage to get to Washington tomorrow forenoon.

At 3:15, not having heard from Mr. Gifford, I telephoned Mr. Purvis' office in New York again, and was able to learn that Mr. Gifford had left New York at 1:30 p.m. today for Washington, and will keep the appointment with Secretary Morgenthau at 11 o'clock tomorrow.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 1940

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Status of Colombian Debt.

1. Just prior to your departure you received a letter from Turbay, which you acknowledged, dated February 6 confirming on behalf of the Colombian Government its acceptance of the temporary arrangement. By a letter dated February 7 Mr. Traphagen similarly confirmed acceptance on behalf of the Council. Neither of these letters, which purported to outline the understanding of the Council and the Colombians as to the terms of the temporary arrangement, mentioned two other important points which had been specifically agreed to at the conference in your office on February 1 -

- (a) That the Colombians would pay half of the 3% interest agreed to on February 15 and the balance at the end of the ensuing six months; and
- (b) That conversations would continue with a view to reaching a permanent settlement comprehending both the direct dollar funded debt of the Republic and of the government-guaranteed dollar funded debt of the Agricultural Mortgage Bank.

Accordingly, in a letter to Turbay of February 9, in answer to the request in his letter of February 6 that you confirm receipt of acceptance in writing by the Council, Mr. Bell called attention to these two points.

2. Turbay acknowledged Mr. Bell's letter in a rather ambiguous fashion in a letter dated February 12. Mr. Traphagen informed me over the telephone that the Council, in working out the details of the temporary arrangement with the Colombians, would also wish to get the Colombians to agree -

- (a) That they would not settle with other debtors on more favorable terms; and
- (b) To the insertion of provisions that payments by way of interest would be used to discharge the oldest coupons rather than the current coupons.

I objected particularly to the latter point as an attempt to modify substantially the agreement reached in your office on February 1. In view of these facts, I had some apprehensions that both sides might find some difficulty in working out the temporary arrangement on paper, especially since

- 2 -

Mr. Traphagen delegated this matter to Francis White. However, the matter went off smoothly, the Council giving up its attempt to have interest payments applied to the back rather than the current coupons.

3. You will recall that you wished the temporary arrangement to be made public before February 15. Agreement to this was obtained from both sides and Turbay put out a statement which did not receive very wide publicity on February 13, which, however, revealed all the substantial terms of the arrangement. It was agreed that the Council should make public a confirming statement to be worked out with the Colombians. This was done on February 19. The statement, as issued, made Turbay very angry because it included a paragraph which he claims was not cleared with him, and which is marked on the attached clipping. Turbay, in an interview with Duggan yesterday, said that this statement would have very unfortunate repercussions in Colombia and Duggan says that Turbay is obviously very irate about the whole affair.

4. Francis White was in Washington today and talked to some people in the State Department who reported to me his version of the affair. As reported, the explanation did not sound very satisfactory. It is thus apparent that relations between the Council and Turbay are not very good at the moment. I do not see that there is anything we can do but wait until Turbay cools down. Duggan had some idea that we might get Mr. Traphagen to issue some sort of additional statement in an attempt to rectify the situation. Under the circumstances there was no hope of and no attempt to reach a permanent settlement before February 15. Mr. Traphagen said that before any further attempt was made he would like to talk to you and to me.

J.P.C.H

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JOURNAL OF COMMERCE
 FEBRUARY 19, 1940

DAY, FEBRUARY 19, 19

PAYMENT OFFERED ON COLOMBIA BONDS

Protective Council States Negotiations Will Be Continued

The Republic of Colombia, through its Ambassador at Washington, Gabriel Turbay, is announcing today it will pay interest represented by coupons maturing in 1940 on its 6 per cent external sinking fund gold bonds due January 1, 1941, and its 6 per cent external sinking fund gold bonds of 1936 due October 1, 1941, at the rate of 3 per cent per annum in United States currency. The republic is also announcing that it will set aside for application this year the sum of \$400,000 for purchase of bonds of these issues for retirement.

Interest payments, which are the result of negotiations between the republic and the Foreign Bondholders Protective Council, Inc., will start with the payment immediately of the coupon which matured January 1, 1940, and subsequent 1940 coupons will be paid on their maturity dates. Interest payments will be made at the offices of Halgarten & Co., 44 Pine street, New York, or Kidder, Peabody & Co., 17 Wall street, New York, as agents for the republic.

Continues Negotiations

Commenting upon the offer, the Foreign Bondholders Protective Council said in part:

"The council would point out that this offer is for one year only during which time the council will continue negotiations in the hope that they may result in an offer of a permanent settlement which the council may be able to recommend to the bondholders as fair and equitable. The council feels that the present resumption of payment on a temporary basis is a step in the right direction and the bondholders may consider it to their interest to take the amount offered for this year.

"The council fully shares the great disappointment of the holders of Colombian bonds, departmental, municipal and bank, that their rights and necessities have not yet been given the consideration which they require and deserve. The council will do everything it properly may to induce the appropriate Colombian authorities at long to make fair and just offers to its bondholders and it will hope that the departmental, municipal and bank bonds will be included at the time of future offers."

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

120

DATE February 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In a quiet foreign exchange market, the quotation for sterling advanced from 3.95 bid at the opening to a high of 3.96-1/4 at the close. As shown below, there was a fair commercial demand. The Federal Reserve Bank also informed us that there was some buying of sterling by the New York agency of a Japanese bank. It was reported that this bank was purchasing sterling in order to cover contracts coming due early in March.

Sales of spot sterling by the six reporting banks totaled £444,000, from the following sources:

By commercial concerns.....	£ 193,000
By foreign banks (Europe and Far East).....	£ 251,000
Total.....	£ 444,000

Purchases of spot sterling amounted to £461,000, as indicated below:

By commercial concerns.....	£ 406,000
By foreign banks (Europe).....	£ 55,000
Total.....	£ 461,000

The following reporting banks sold cotton bills totaling £17,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 8,000 by the Guaranty Trust Company
5,000 by the Bankers Trust Company
2,000 by the Chase National Bank
2,000 by the National City Bank
<u>£17,000</u> Total

The rate for the Dutch guilder rose from .5315 at the opening of the New York market to a high of .5323. It closed at .5322-1/2. The strengthening in the rate may be due to the repatriation of capital to Holland caused by the report from Amsterdam that the Netherlands Bank's conditions for granting advances against the new Government loan to be issued February 26 provide among other things that borrowers must declare that they own neither gold nor claims on foreign countries; neither can they possess foreign bank notes or balances in foreign countries, which can be realized with a view to financing their subscriptions. The report also states that these requirements, according to some quarters, may foreshadow Government pressure to liquidate foreign holdings of gold, money, etc.

The other important currencies closed as follows:

French francs	.0224-1/2
Swiss francs	.2242-1/2
Belgas	.1683
Canadian dollars	13-1/2% discount

The discount for the Cuban peso, which has remained fairly steady around 7-1/2% during the past few days, today widened to 7-15/16%. The Mexican peso continues to be quoted at .1672, unchanged since January 3.

We sold \$2,000,000 in gold to the Bank of the Argentine Republic, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the following shipments of gold were being sent to it by the banks indicated below and were for sale to the U. S. Assay Office upon arrival:

\$ 2,813,000 from Italy, shipped by the Bank of Italy
2,309,000 from Canada, shipped by the Bank of Canada, Ottawa
\$ 5,122,000 Total

The shipment being sent by the Bank of Italy is for its own account and is the first of its kind since the outbreak of the war. Another interesting feature about the shipment is that the dollar proceeds of the gold will be credited to the account of the Bank of Italy at the Federal Reserve Bank of New York. Previously, the Bank of Italy maintained a very small amount in its account at the Federal. At the present time it is uncertain whether the Bank of Italy intends to leave the dollar proceeds in its account at the Federal, or pay out the funds when they are received.

In Bombay, the quotation for spot silver was equivalent to 39.41¢.

The prices fixed in London for spot and forward silver declined further to 20-3/8d, off 1/4d, and 20-7/16d, off 3/16d, respectively. The U. S. equivalents were 36.22¢ and 36.14¢.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made two purchases of silver totaling 125,000 ounces under the Silver Purchase Act. This silver was new production from foreign countries and was purchased for forward delivery.

We also purchased 100,000 ounces of silver from the Bank of Canada. Thus far in February, we have bought 890,000 ounces from that country under our regular monthly agreement to purchase up to 1,200,000 ounces.

CONFIDENTIAL

Wednesday
February 21, 1940
1:01 p.m.

HMJr: Hello. Hello.

Operator: Senator Harrison. Go ahead.

HMJr: Hello.

Pat
Harrison: Hello, Henry.

HMJr: How are you, Pat?

H: I'm pretty good. I reckon you're feeling fine now.

HMJr: Oh yes.

H: When did you get back?

HMJr: I got back at noon yesterday.

H: Uh-huh.

HMJr: All ready for a tax bill.

H: I see. Are you insisting on it strongly?

HMJr: (Laughs) Well, if I do I want to be about a thousand miles away from you.

H: Why, Henry.....

HMJr: Yeah.

H:I tell you what I've called up about.

HMJr: Yeah.

H: I -- it's rumored in the air that there might be some change in the Internal Revenue Collector's place here -- of Commissioner.

HMJr: Oh, so? I hadn't heard anything about it.

H: Well, I'm just telling you what is rumored.

HMJr: Yeah. You mean.....

H: And that the position is now vacant due to the appointment of John Sullivan as Assistant Secretary of the Treasury.

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HMJr: Yeah.

H: See?

HMJr: Yeah.

H: And the position of Assistant to the Secretary -- to the Commissioner is what I'm talking about.

HMJr: I see.

H: I hope that, if your mind isn't fixed.....

HMJr: Yeah.

H:and when you consider that business that you give consideration to Yellowley, out there in Chicago whom you know all about.

HMJr: That's right. Well, I'll be glad to do that, Pat.

H: Your mind isn't fixed, is it?

HMJr: Well, I've been away for two weeks and I don't know what Guy Helvering has done during my absence, but I'll get in touch with him.....

H: I see.

HMJr:and find out. See?

H: Yeah. You know his record as well as anybody.

HMJr: That's right.

H: You know what a wonderful fellow he is.

HMJr: That's right.

H: And I just want you to give him consideration, and favorably so, unless you're tied in some other way.

HMJr: Well, I don't know what Guy has done, but I'll make inquiries and I'll get in touch with you.

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H: All right.

HMJr: I hope to see you some day.

H: Well, I'll see you soon.

HMJr: Righto.

H: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Deputy Governor Donald Gordon of the Bank of Canada called on me yesterday evening. He was in town for a brief visit, and the Canadian Minister had asked me to receive him. He spent some time at the Federal Reserve Board.

Mr. Gordon explained to me several points in regard to Canadian foreign exchange regulations. He was quite pleased at the manner in which the Press had handled the vesting of American securities by the British authorities, except that he regretted that one or two papers had anticipated that Canada would shortly take a similar step, and attributed to Canada a much larger amount of American securities than they actually hold. He said that his people had been making a census of foreign holdings of Canadians, but that this was not yet completed, and he was not at all sure how accurate it might be. There is no plan to take over the securities in anything like the immediate future. Such action is not even being considered at the present time. He thinks Canadian holdings of United States dollar securities will not exceed \$300,000,000.

J. M. C.

TREASURY DEPARTMENT

126

INTER-OFFICE COMMUNICATION

DATE February 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The following paragraph is copied from the Evening Star of February 21, reporting the session of the House Banking Committee before which it was anticipated that Dr. Feis might be called upon to answer the question posed to Mr. Hackworth the preceding day in regard to whether the Federal Reserve Bank of New York was acting as fiscal agent for the Allies:

"When the committee recessed yesterday it had planned to hear further testimony from the State Department, at the request of Representative Wolcott, Republican, of Michigan, who said he wanted to inquire whether the Federal Reserve Bank of New York has acted as fiscal agent for the allies, and if so, whether the State Department had any consultation on the subject. Later, Mr. Wolcott decided not to raise the question and the hearings ended."



February 22, 1940

11:00 p. m.

Present:

Mr. Gifford
Mr. Pinsent
Mr. Bell
Mr. Cochran
Mrs. Klotz

HM, Jr: I thought today would be a good day for you, because you would not lose a Stock Exchange day. It went off beautifully!

Mr. Gifford: Yes, I am very well pleased. I don't think we could have hoped it could be any better.

HM, Jr: The stocks you listed

Mr. Bell: ... went up a little, didn't they?

HM, Jr: behaved like the rest of the market.

Mr. Gifford: The market was far from being broken. It all worked out very nicely.

HM, Jr: Any troubles below the surface that you want to tell me about?

Mr. Gifford: No, I have no troubles. I had a meeting on Tuesday. You know, my name had not been mentioned at all in the press and we came to the conclusion that it would be rather unwise in making anything of a mystery about it, and so on Tuesday afternoon I saw the representatives of five of the New York papers.

HM, Jr: Yes.

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Mr. Gifford: Myself. And had a talk with them and you could see the result of that in the papers yesterday morning. Seemed quite satisfactory. Rather more headlines with prominence of my name than I am accustomed to in my country.

HM,Jr: You are in America now.

Mr. Gifford: Exactly! But on all that, I think it went just as nicely as one could ask for.

HM,Jr: I was curious to know, for instance, are you getting bids for blocks of the securities from companies?

Mr. Gifford: I would like very much, Mr. Morgenthau, to talk to you quite confidentially and frankly about what my arrangements are, because I know enough about America here to realize that there are certain political considerations that come in.

HM,Jr: Only in America?

Mr. Gifford: I think a little more here perhaps, shall we say, than they do with us. At least I come in contact with them on this occasion more than I do at home and, of course, the last time I was here we did not have any hesitation about -- between each other -- making plain who were my advisers in New York. Now I would like you to know, confidentially, what my plans are with regard to all the question of realization.

HM,Jr: Yes. I would like to know.

Mr. Gifford: I come over here with a certain knowledge of American securities, but neither I and, as far as I know, anybody else in Great Britain has ever had to deal, since the last War at least, with the realization of very large blocks of individual stocks and, therefore, I would regard it as extremely foolish if I were to attempt the handling of that matter unguided by skilled advisers here. I, therefore,

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intend to consult constantly and fully my advisers, J. P. Morgan & Co. Make no bones about it. I think I should be extremely foolish if I did not have some advisers of that kind. We have always been intimate with them and we believe they are better in the field for the job

HM, Jr: You say "we".

Mr. Gifford: I am talking about the people on the other side.

HM, Jr: You are talking about the British Government when you say "we"?

Mr. Gifford: The British Government; certainly. I, of course, am here with the authority of the British Government to control the whole thing. I am opening an office of my own. I shall be available to see people who want to see me by myself, but I would not wish to conceal from you that when John Smith and Company want to see me, whom I don't happen to know, I shall, of course, ask my friends at 23 Wall Street who are they? What's their standing? "Put me wise", if you want. I may see them in the first instance myself or I may think it wiser that I should have, say, one of the Morgan partners, according to the circumstances.

Then the other point I want to make is there is a suggestion, you may have seen through the papers, that I shall be open to receive advice from other bankers. I don't want to make any pretense about that. It's true, up to a point, but only to a point. I don't think the thing can be done taking advice as regards, say, one little bit from one and another little bit from another. I must have final advisers on the thing to whom I may go and they have my program in one part in relation to my program in another and the thing coordinated, so I am really getting the full benefit of advice and not just a part of the advice which might hamstring me in regard to another.

I don't want to leave you in any doubt that is my program. I shall retain the decision on all

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points in my own hands, but I do feel that I must have advice of that kind constantly and freely and any suggestion that, for instance, I can do without those advisers just does not seem to be practical at all.

HM, Jr: Somebody make that suggestion?

Mr. Gifford: No, no! But you might read it into a line here in the papers and -- no, I am not suggesting it was made, but I am so anxious you should see how my mind is working that I want to make myself a little plain.

HM, Jr: I want to go back a little bit. I appreciate your frankness. You (Cochran) will have to check my memory and so will Mr. Pinsent.

When this matter first came up -- I have a lot of things; I want to check with two or three of you gentlemen, but I think these two sat in before you came -- wasn't the suggestion made, last Summer or sometime when we first talked about this thing, that the Bank of Montreal would act in the capacity of adviser and this question came up of using some American advisers and it was thought better at that time it would be somebody like the Bank of Montreal, somebody who had an office in New York? Am I right?

Mr. Cochran: The suggestion came from London of the New York agency of the Bank of Montreal to be helpful in this. The exact status was not defined. And later we talked over the Bank of Montreal as the depositor and an expert would come from London to supervise and be free to have technical assistance of anyone they sought in the New York market.

Mr. Pinsent: My recollection, roughly, was two suggestions arose about the same time; (1) Canadian banks, say the Bank of Montreal, might handle the whole business for us; another, as far as I remember -- and the author of the other was Walter Stewart -- was that we might send our own

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expert out from England looking to the British investment trusts. That appears to be the alternative chosen.

HM,Jr: Would you mind saying it again?

Mr. Pinsent: I seem to remember two suggestions arising at the same time, rather independently; the first being we might employ one of the Canadian banks, such as the Bank of Montreal, to handle the whole business for us; second, we might send out our own expert from England to handle the whole matter and, according to my recollection, those were independent suggestions, both for consideration, and London seems to have chosen the second one -- to send out their own expert, Mr. Gifford.

HM,Jr: Let me ask you a question. From the paper I got the impression, in the last day or two, that Morgan's compensation would be commission on the stocks.

Mr. Gifford: That's right.

HM,Jr: Which would leave me to believe that they were going to sell all of the stocks, -- just from reading the newspapers.

Mr. Gifford: Let me make that quite clear to you. Morgan's, I believe, for sometime past have not operated themselves in the stock exchange. You noticed they are going to be incorporated on the first of April.

HM,Jr: As a trust company.

Mr. Gifford: And that means they cease to be members of the Stock Exchange themselves. They have to employ brokers. Under the regulations of the Stock Exchanges, they give a certain portion of the commission on the orders given. They will get that and that will be their compensation on the orders.

HM,Jr: They get that after the first of April?

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Mr. Gifford: I think so. At any rate, I don't want to be taken authoritatively on that. All that has been said to me with regard to incorporation, that incorporation will not result, however -- as it affects them, will not result in any increased charge to Great Britain for their work.

HM, Jr: You have been very frank and I am going to be equally frank with you.

Mr. Gifford: Thank you very much.

HM, Jr: You spoke of political -- right or wrong, it has nothing to do with J.P. Morgan's ability, but there is in the minds of the public in the United States a certain phobia against them, because they feel that they more or less symbolize in the United States the one institution that got us into the last war. Most likely no news to you, but the children in the schools are taught that -- and I don't mean by text books, but by word of mouth. And you are, by using them exclusively as your advisers and by clearing all the stocks, I take it, through them and by referring brokers or interests who have stocks to sell, in most instances, to Morgan's, you are going to stir up that feeling and it will undoubtedly, to a certain extent, react unfavorably on your Government. Now, I take it that you weighed that carefully and that you decided it is worth it, but -- and I am not in any way saying anything that they are not good advisers or not perfectly honorable people

Mr. Gifford: It's that symbol.

HM, Jr: it's that symbol growing out of the fact that they were purchasing agents during the first World War for the British Government. Now I feel that if I did not point that out to you, well, I would not be as frank as you are with me, and it's there and depending upon the tide of the war it will grow bigger or smaller and the thing goes along. I am not a prophet, but it is there and I am not going to do anything, but I don't know whether you

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Mr. Gifford: I am aware of that, of course, Mr. Morgenthau.

HM, Jr.: Not political in the sense of party either. It is not a party-- it's politic. It's there.

Mr. Gifford: It's there. As far as my judgment goes, it is a danger that must be faced. I don't see any other method by which we can effectively handle this realization than by using them. Something must turn, I presume, on the belief or disbelief that I am able to take my own decisions and to be able to act for the British Government. If that is disbelieved, the effect will be worse than if it is believed. But I don't myself see how -- one alternative, of course, would be to establish a very large and complete British organization over here, say with a large number of assistants, but even then we, as I say, we have not got the knowledge of the other side, of methods of distribution of securities in these large scales that should enable one to deal with the matter without applying the method we are applying.

HM, Jr.: Whatever it costs you to establish your own organization, even if you hired Americans to advise you, built up your own organization, it would be a cheap investment.

Mr. Gifford: That's very important.

HM, Jr.: I appreciate what I am saying. It would be -- I would not say cheap

Mr. Gifford: No. Cheap is an ugly word.

HM, Jr.: ... I mean cheap for the money expended.

Mr. Gifford: It would bring good results.

HM, Jr.: Oh, definitely! We are talking -- you started the thing, in a sense, you wanted me to know ...

Mr. Gifford: I should hate to feel, two months

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hence that you might say "Mr. Gifford, you did not tell me".

HM, Jr: No. No. It's all in the paper, but, oh! it's just a little straw in the wind and this does not have anything to do with Morgan -- on the Hill -- and you (Cochran) can check me on this -- in connection with the loan to Finland, they asked the Counselor of the State Department what are the arrangements of the United States Treasury has made with Great Britain through the Federal Reserve? Well, that's a pretty far fetched, and did the State Department know anything about it? Well, on November 7th, if my memory is right

Mr. Cochran: ... the 9th.

HM, Jr: Well, I slipped two days. I advised the President and Mr. Hull about the arrangements we finally made. It creeps up there. And I am sure that they will consider that I am slightly "contaminated" in this way. You see, I am going to have to explain sometime or other and, mind you, I again state the fact that Mr. Leffingwell can come in here; I consider him a friend of mine, and Parker Gilbert, when he was alive, he would come on occasions and advise me as a former Treasury official, and they are perfectly honorable citizens, but you can't change what's in the minds of the present generation. And I think that sooner or later you may regret it -- when I say "you" I mean your Government -- and the fact that you make all the final decisions won't change the fact that some broker who does not get a commission, etc., and has to go and see Morgan and can't see you and says he can't, then reaches his Congressman or Senators -- it's the symbol which Morgan's -- what it means to the generation who have grown up since the last War. I don't want to say anything more and I don't want to bear down any heavier than that, but we went through the same thing -- it wasn't just Morgan's -- we went through the same thing on the question of depositor and we felt it was better for your Government and for us if you would use the Federal Reserve. I don't think you have had any chance to regret it.

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Mr. Pinsent: None at all, Mr. Secretary.

HM, Jr: And the fact that I had hoped that there was some way that you could do this -- the Bank of Canada does not have an office in New York, does it?

Mr. Pinsent: I think not.

Mr. Bell: The Bank of Montreal is the only one in New York.

HM, Jr: Governor Tower and his organization does not have an organization in New York?

Mr. Bell: I am sure they don't.

HM, Jr: I am just fishing now. Well, doesn't the Federal Reserve act for them in New York and they act -- I know they have direct telephone.

Mr. Bell: For the Bank of Canada?

HM, Jr: Yes.

Mr. Bell: They have deposits there.

Mr. Cochran: They are the correspondents.

HM, Jr: Dan, I don't know if you want to say anything. You have been here 28 years. Do you want to say anything on this subject. You don't have to.

Mr. Bell: I don't think so. I think the arrangement they have this time is much better than they had before from the standpoint of the public and the fact you are going to use Morgan been made public?

Mr. Gifford: Not fully.

Mr. Bell: Because they will be using Morgan after the first of April as a bank rather than brokers.

Mr. Gifford: May I make that clear. We have been keeping no money with Morgan.

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Mr. Bell: Bank advisers rather than brokers. What Morgan will do, Mr. Secretary, is to put the securities in the hands of a group of brokers who will be in touch with the Bank of Morgan.

Mr. Gifford: Let me make that clear. The preliminary list of brokers is already very much wider than what Morgan is accustomed to use. One thing I had in view, the Government has taken over these securities from private owners in Great Britain who purchased them through brokers, either directly or through London correspondents, and between them could sell through these brokers. Many of them do. I am very anxious that these people should not feel that by the Government intervention they are losing that chance, of losing that brokerage.

HM, Jr: Pardon me. Is that English brokers?

Mr. Gifford: No. American brokers. And, therefore, it will be spread very wide and it will not be in any sense private brokers.

Mr. Bell: Will not be confined to a group "within the family".

Mr. Gifford: No. Not at all.

Mr. Bell: I think that helps a little.

Mr. Pinsent: I think you understand the difference between this position and position in the last War, which is a great one, after all.

HM, Jr: On the same theory that I urged your Government to set up their own purchasing mission and no middlemen, the same as the French, if I have given any Government good advice I think that was. It's working out all right?

Mr. Pinsent: Right.

HM, Jr: And I think, as far as expense, you can buy much cheaper.

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Mr. Pinsent: I think so too.

HM, Jr: And there won't be any brokerage, and that same theory is what we have been trying to do and I have not been trying to do it alone. I know the President has talked to the British Ambassador, Sir Ronald; I don't know about Lord Lothian -- but I know as far back as July, I doubt about this particular thing, but the method of being represented in this country by British Government officials rather than by agents and I know the President is keenly interested in this thing, because, as I say, as far back as last July he was talking to -- it was Sir Ronald at that time?

Mr. Pinsent: Yes. It would be Sir Ronald at that time.

HM, Jr: So it is not personal with me and, as I say -- but I know a little bit about the pulse of the country, and that's that!

Mr. Cochran: May I ask one question. Will the agency of the Bank of Montreal be the depositor now?

Mr. Gifford: Oh, there was no question about that. We would unhesitatingly employ the Bank of Montreal in the capacity of Morgan's if it had not been they do not have the knowledge. It would have been ridiculous. They could not help us. There really isn't anybody who can help us in the way Morgan's can. We do hamstring ourselves if we don't use their services. I am 100% clear on that, as regards the effective realization of our securities. I have to weigh against that the other side. It is not a very easy

HM, Jr: No.

Mr. Gifford: ... not a very easy balancing.

HM, Jr: No.

Mr. Gifford: I have no hesitation at all, I

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have no lack of confidence at all about the efficiency, the way I can handle it. If I am able to use, confidentially, the assistance I can get at 23 Wall Street, then I am perfectly happy and confident of the efficiency of the handling of the

HM, Jr: I have not said anything about that.

Mr. Gifford: No. No. If I am to find it necessary not to proceed along those lines, I may get a bit nervous. My confidence is very much diminished as to the efficiency with which the work will be done. My confidence goes down at once. It's going to be a very grave worry. I can see myself getting over three or four men from the other side whom I know and who could help me up to a point. I should still feel very much in need of that advice.

HM, Jr: Well!

Mr. Gifford: You see, the difficulty there, Mr. Morgenthau.

HM, Jr: I don't think it is as difficult as you think it is. It would be quite a calamity if nobody could function financially in the United States without the advice of Morgan.

Gifford: Oh, no, that's an exaggeration! But you take the effect -- I will put it this way, the effect on the street, among the other financial houses and the brokers, just for the very reason you give, because they symbolize Wall Street, there will be no jealousy of our using Morgans. I think they all will approve that. If I go to somebody who would not be used in the same way as a symbol, then I will run up against it just as quickly as light.

HM, Jr: I did not suggest that as an alternative. Using some other house. The discussion we were talking about was the possibility of your building up your own organization of technicians and experts, which is something quite different from using Morgan's or John P. Smith and Company.

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Mr. Pinsent: You mean to include American experts.

HM, Jr: I take it Mr. Purvis does that, doesn't he? Didn't he employ a retired vice president or something of Westinghouse.....

Mr. Pinsent: I think the director of purchases is a Mr. Bloom.

Mr. Cochran: Or from the telephone company, I forget which.

HM, Jr: Yes. Didn't he? He's an American. He's purchasing agent or something like that.

Mr. Pinsent: He's director of purchases.

HM, Jr: Yes. They have a man expert in tools and the French have an expert in machine tools, etc., etc. I don't know how big an organization, but they seem to have needed technicians.

Mr. Pinsent: I have not been in their office since they moved to their new address. They are a good deal more active.

HM, Jr: No, I don't mean "not Morgans and make it John Smith".

Mr. Gifford: I appreciate your remark on that.

HM, Jr: But again, as I say, it's your responsibility, but I felt I owed that to you. Goodwill is something like confidence. It's hard to get and easy to lose.

Mr. Pinsent: In actual fact, Morgan remuneration will simply consist in sharing broker's commission.

Mr. Gifford: That's right, and if they arrange a sale. For instance, one hopes to arrange sales off the market and they, like anybody else, might be able to arrange a sale off the market and get the commission

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for the sale as a matter of fact fixed at a very low rate.

It's rather -- and I think, perhaps, you see, Mr. Morgenthau, it's rather a blow to me, because all my plans have been and even since December that we would work in the way I have been intending to.

HM, Jr: I did not realize. Most likely my fault, but I did not realize it was going to shape up that way or I would have spoken to you before. Am I right?

Mr. Gifford: No, that's right.

HM, Jr: Then maybe it isn't my fault. I did not realize that would be the way.

Mr. Gifford: I have got the impression, rightly or wrongly, that provided we were independently represented over here that it was just assumed that we would employ Morgan's, but I did not realize to the extent that I now do that there is so much to that.

HM, Jr: Might I make one other -- just raise the question because I am not even making the suggestion, that you discuss this with Lord Lothian.

Mr. Gifford: Oh, yes; I shall. First thing, I shall do it, because I think his opinion will be very useful in a thing like this.

HM, Jr: I am not making any suggestions, just raising some questions. If the decision is to continue, why you won't that find I will raise the question again. I mean, if you continue on the same basis.

Mr. Gifford: May I perhaps put it this way, in view of what you have said, I am a little slow to continue as we had intended, but if after weighing it up we were to decide to go on, should I be flying in the face of your wishes? Would that be too strong?

HM, Jr: Yes, that's too strong; definitely. I have just raised the question and if you decide to go on I won't raise it again.

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Mr. Gifford: And if we did decide, I would like to assure you of this: If we did come to that conclusion after today's discussion, I would regret it very much because of the respect we bear to you and yet, I say, the practical difficulties do weigh very heavily with me.

HM, Jr.: I would like to say one thing. In fairness to me, if at any time I am called up and "put on the grill" for investigation on the Hill as to why, I would like to be able to say that in a discussion I did raise the question

Mr. Gifford: as to the wisdom.

HM, Jr.: Yes. I would like that privilege. I am not going to volunteer and will not write any letters, but if I am called before the Banking and Currency in the Senate and House "We want you to explain all these relationships, and purchasing, and what are you doing with all the various things and want you to tell us," and begin to cross-examine -- it's no secret it was Chase that kicked so about moving the account and moving it to the Federal Reserve -- and if I am up there and they begin to start to machine gun me, well I just want to tell the whole story.

Mr. Pinsent: Yes.

HM, Jr.: I think only in fairness to myself. Don't you think that's fair, Mr. Pinsent?

Mr. Pinsent: Yes.

HM, Jr.: I would like to reserve that right. I am not going to seek it, but if the question comes up "What did you do about this?", I want to be able to say I raised the question of the advisability.

Mr. Gifford: Then, if we did, "After I raised it, the British Government made their own decision."

HM, Jr.: Yes; I would like to reserve that.

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Mr. Gifford: Oh, yes! I think that is very sound. Well, you realize that I can say nothing.

HM, Jr: Oh, no! Think it over and if you want to come back and talk on this particular subject, I am available. I am not expecting you to discuss it. After thinking it over and you have some after-thoughts or would like to probe the matter further, I would like to go into it further.

Mr. Gifford: Thank you very much. I confess quite frankly it is a very serious problem.

HM, Jr: And the fact we discussed this on George Washington's birthday has no significance.

(Laughter.)

What did Lord Lothian say? George Washington also belonged to Great Britain?

Mr. Gifford: I was going to say the same thing. I have seen his house in the home country.

(At this point, Mr. Gifford and Mr. Pinsent left.)

HM, Jr: They have been very stupid about this. I mean this attitude that they can't sell any securities unless they ask J. P. Morgan is perfectly silly.

Mrs. Klotz: Don't you think that was all thought out and he knew what your reaction would be?

Mr. Bell: I think he has been taken in by the Morgan crowd and convinced that they ought to use Morgan.

HM, Jr: You may find another thing -- I did not want to ask, but whatever Scottish Investment Trust that he represents, they may have been using Morgan. Whatever his personal interests are, I think that you will find that Morgans -- after all, Mr. Morgan does not go to Scotland every year for nothing.

oOo-oOo

February 22, 1940
10:35 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Ambassador
Bullitt: Hello, Henry.

HMJr: How are you, stranger?

B: Fine. Look here.....

HMJr: Yes.

B: I -- I just came down unexpectedly because my little girl fell off a horse and she's over here at the Emergency Hospital.

HMJr: Oh, for heavens sakes!

B: And I'm very anxious to see you. Can we have lunch?

HMJr: Unfortunately I've got the Attorney General for lunch.

B: Well, that's very sad. Well, when can I see you, Henry?

HMJr: Well, are you going to be in town all day?

B: No, I'm going to -- I'm not going to budge at all. I'll be here now.

HMJr: Oh. Well, let me just think a minute. I tied myself up into a knot today. I tell you, how about four o'clock?

B: All right, fine.

HMJr: What?

B: Fine, I'll stop in at four.

HMJr: Will you do that?

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B: Fine -- at your house.

HMJr: No, I'm here at the office.

B: Oh, you'll be at the office today?

HMJr: Yes.

B: Fine. Well, I'll stop in at your office then. Fine, Henry.

HMJr: I am -- is your -- is the child badly hurt?

B: No, I don't think so.

HMJr: Oh, I'm terribly sorry.

B: O. K.

HMJr: I'll see you at four at the Treasury.

B: Fine. Good luck, Henry.

HMJr: Thank you.

February 22, 1940
3:42 p.m.

HMJr: Hello.

Operator: Senator Norris.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

George W.
Norris: Hello.

HMJr: Henry Morgenthau, Senator.

N: All right, Mr. Secretary.

HMJr: Senator, I've about finished a letter in answer to your letter to me. Hello? On the Associated Gas and Electric.

N: Yes.

HMJr: And what I'd like to do is, Mr. Foley will bring it up to you himself, and then if you're satisfied with it I'd like to give it out for tomorrow morning papers because we are fearful that the Judge Leibell may do something tomorrow and then, they tell me, it's a question of court etiquette of my saying anything after he has taken action.

N: Yes.

HMJr: So if it's all right with you -- how long are you going to be at your office?

N: I'll wait for the letter.

HMJr: Well, it ought to be there not later than four-thirty.

N: All right, and do you want me to answer it today?

HMJr: No.....

N: Or doesn't it require an answer?

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HMJr:I don't think it calls for an answer.

N: All right.

HMJr: It really -- it isn't entirely an answer to your letter; it simply states my position on this public utility holding act.

N: Yes.

HMJr: And why I think the SEC ought to do it.

N: Yeah.

HMJr: But it doesn't really call for an answer.

N: All right, and -- and you'll give the letter out there?

HMJr: If -- if it's agreeable to you.

N: All right. All right.

HMJr: But.....

N: Send it up and I'll send word back with the.....

HMJr: Well, Mr. Foley, the General Counsel of the Treasury, is going to bring it himself.

N: All right.

HMJr: Right.

N: All right.

HMJr: Thank you.

February 22, 1940
3:53 p.m.

HMJr: Hello.

Operator: The Attorney General. Go ahead.

HMJr: Hello -- hello -- hello.

Robert Jackson: Hello.

HMJr: Bob -- Bob?

J: Yes.

HMJr: Henry talking.

J: Yes, Henry.

HMJr: I've just about finished my letter and I spoke to Senator Norris and he's waiting there for my letter.

J: Um-hm.

HMJr: And I told him we'd try to get it there by four-thirty, so I've -- and then he's going to read it and if it's all right we're going to release it. How are you coming with yours?

J: Well, I've dictated one and it's in the machine.

HMJr: Well.....

J: I dictated one and then it was too long and I cut it up and it's back in the machine again.

HMJr: Well, Senator Norris said he was going to sit and wait for mine; if you don't mind, I was going to make the suggestion you might like to call him and tell him that you're going to have one too.

J: Where is he?

HMJr: He's at his office at the Capitol.

J: At his office. He'll be there until four-thirty.

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- HMJr: Well, he said he'd wait as long as is necessary to get my letter.
- J: Oh, well.....
- HMJr: He said first he'd be there from four to five but he said, "I'll wait until I get it."
- J: Yes.
- HMJr: Now, I thought if he knew that yours was coming -- well, he'd just wait until it got there.
- J: Yes. Well now, I'll -- I haven't got anybody here today to send.....
- HMJr: Well, Ed is going to go up. Ed could -- when he's got mine he could drop over to your office.
- J: Well, suppose I call you back just as soon as this is ready; I'll get it ready just as fast as I can, and let Ed take them both to him.
- HMJr: Yes, and if I have left -- because Bill Bullitt is coming here -- Ed will be here.
- J: Yes.
- HMJr: Is that all right?
- J: Yes, that'll be all right. Now, I think -- I think you might get into your letter, if you haven't closed it.....
- HMJr: Yes.
- J:somewhere -- I'm jumping strongly on this proposition: That the Government can't escape responsibility for this situation, which is so big, so important, and I don't know that you do have that sufficiently emphasized. But.....
- HMJr: Well, we've handled it a little bit differently because I think I put it this way: "Because of these various and possibly conflicting interests in this case, it is particularly important to

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have an independent trustee such as the Chandler Act contemplated and as the Securities and Exchange Commission would be."

J: Um-hm.

HMJr: You see? I said because of these -- does that have what you have in mind?

J: I think so.

HMJr: Yes.

J: Yes, I think so. I think that gets.....

HMJr: That's an added sentence since you've been here.

J: Yes, I think that gets the idea.

HMJr: See?

J: Yeah.

HMJr: Well then, when you're ready you call Ed.....

J: Yes.

HMJr:and Ed will come over to your office.

J: I'll call him just as soon as I can.

HMJr: Righto.

J: All right, fine.

HMJr: Thank you.

J: Goodbye.

February 22, 1940

Dear Senator Norris:

I have read with great interest the copy of your letter of February 16th to Chairman Frank of the Securities and Exchange Commission relative to the Associated Gas and Electric bankruptcy proceeding which you sent to me and which I found upon my desk when I returned to Washington last Tuesday.

At my press conference on January 16th, I announced that I would be delighted if the Securities and Exchange Commission would serve as sole trustee in that proceeding. I want to take this opportunity to point out some of the reasons for my statement.

Since I have been Secretary of the Treasury, the Commissioner of Internal Revenue has constantly struggled with the intricate corporate superstructure of the Associated Gas and Electric system in an effort to determine undisclosed tax liability. Even today, the precise inter-relationship of the sources of expenses within the system is not fully known, nor the taxable income of each company definitely established. Our investigation of the system has demonstrated beyond a shadow of a doubt that the corporate superstructure of the system has been so unnecessarily complicated, and its financial affairs have been so imprudently managed that only the most penetrating and vigorous action can bring about a simplification and integration of the system which will protect equally the interest of consumers, creditors and investors.

Because of the peculiar complexities of this holding company system, the Securities and Exchange Commission, in my opinion, is best qualified to perform this gigantic task in an effective and disinterested manner, and to recommend to the Court a plan of re-organization consistent with the underlying purposes and objectives of the Public Utility Holding Company and the Bankruptcy Acts.

As you know, the Associated Gas and Electric Company, through its Associated Gas and Electric Corporation, owns the voting and other capital stock of more than one hundred other corporations engaged in supplying public utility services to more than a million and three-quarters persons in over six thousand important communities, having a population of over seven million. In nearly half the states of the Union and in the Philippine Islands. Out of approximately one billion dollars of securities issued by the system, the Associated

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Gas and Electric Company alone has outstanding securities having a face value of more than four hundred million dollars which are owned by more than three hundred thousand persons. Because of these various and possibly conflicting interests in this case, it is particularly important to have an independent trustee such as the Chandler Act contemplated and as the Securities and Exchange Commission would be.

Whatever technique ^{is} used in effectuating the reorganization of the Associated Gas and Electric system will unquestionably establish a precedent for reorganization of utility holding companies, and ought to be a model in equity, efficiency and economy. Trustee, counsel and bondholder protective committee fees all loom large in any reorganization. To the extent such fees are paid from the bankrupt's estate its assets are depleted. In the case of public utilities, this process of diminishing assets is reflected in increased rates paid by consumers as well as in decreased amounts realized by creditors and security holders.

Congress undoubtedly had such wasteful practices as these in mind when it conferred power upon the Securities and Exchange Commission to act as sole trustee for registered holding companies in bankruptcy. By accepting appointment as sole trustee, the Securities and Exchange Commission, in my judgment, could save substantial sums for consumers, creditors and investors.

For these reasons I was disappointed when the Securities and Exchange Commission announced on February 10th its refusal to serve as trustee in this matter as I believe that we are confronted here with the exact situation visualized by Congress when it conferred upon the Commission power to act as trustee.

I have instructed counsel to bring your letter to the attention of the Court.

Sincerely yours,

Secretary of the Treasury.

Honorable George W. Norris,
United States Senate.

February 23, 1940

Dear Senator Norris:

I have read with great interest the copy of your letter of February 14th to Chairman Frank of the Securities and Exchange Commission relative to the Associated Gas and Electric bankruptcy proceeding which you sent to me and which I found upon my desk when I returned to Washington last Tuesday.

At my press conference on January 15th, I announced that I would be delighted if the Securities and Exchange Commission would serve as sole trustee in that proceeding. I want to take this opportunity to point out some of the reasons for my statement.

Since I have been Secretary of the Treasury, the Commissioner of Internal Revenue has constantly struggled with the intricate corporate superstructure of the Associated Gas and Electric system in an effort to determine undisclosed tax liability. Even today, the precise inter-relationship of the scores of companies within the system is not fully known, nor the taxable income of each company definitely established. Our investigation of the system has demonstrated beyond a shadow of a doubt that the corporate superstructure of the system has been so unnecessarily complicated, and its financial affairs have been so improvidently managed that only the most penetrating and vigorous action can bring about a simplification and integration of the system which will protect equally the interest of consumers, creditors and investors.

Because of the peculiar complexities of this holding company system, the Securities and Exchange Commission, in my opinion, is best qualified to perform this gigantic task in an effective and disinterested manner, and to recommend to the Court a plan of re-organization consistent with the underlying purposes and objectives of the Public Utility Holding Company and the Bankruptcy Acts.

As you know, the Associated Gas and Electric Company, through its Associated Gas and Electric Corporation, owns the voting and other capital stock of more than one hundred other corporations engaged in supplying public utility services to more than a million and three-quarters persons in over six thousand important communities, having a population of over seven million, in nearly half the states of the Union and in the Philippine Islands. Out of approximately one billion dollars of securities issued by the system, the Associated

- 2 -

Gas and Electric Company alone has outstanding securities having a face value of more than four hundred million dollars which are owned by more than three hundred thousand persons. Because of these various and possibly conflicting interests in this case, it is particularly important to have an independent trustee such as the Chandler Act contemplated and as the Securities and Exchange Commission would be.

Whatever technique is used in effectuating the reorganization of the Associated Gas and Electric system will unquestionably establish a precedent for reorganization of utility holding companies, and ought to be a model in equity, efficiency and economy. Trustee, counsel and bondholder protective committee fees all loom large in any reorganization. To the extent such fees are paid from the bankrupt's estate its assets are depleted. In the case of public utilities, this process of diminishing assets is reflected in increased rates paid by consumers as well as in decreased amounts realized by creditors and security holders.

Congress undoubtedly had such wasteful practices as these in mind when it conferred power upon the Securities and Exchange Commission to act as sole trustee for registered holding companies in bankruptcy. By accepting appointment as sole trustee, the Securities and Exchange Commission, in my judgment, could save substantial sums for consumers, creditors and investors.

For these reasons I was disappointed when the Securities and Exchange Commission announced on February 10th its refusal to serve as trustee in this matter as I believe that we are confronted here with the exact situation visualized by Congress when it conferred upon the Commission power to act as trustee.

I have instructed counsel to bring your letter to the attention of the Court.

Sincerely yours,

Secretary of the Treasury.

Honorable George W. Norris,
United States Senate.

February 22, 1940

Honorable George W. Norris,
United States Senate,
Washington, D. C.

My dear Senator Norris:

I can make no complaint because you have by your letter of February 14, put me upon notice respecting the Associated Gas and Electric Company trusteeships. As I see it, the United States is interested in these proceedings from four points of view.

1. It is a creditor in a very large amount.
2. It is interested in a fair and impartial application of and compliance with the Public Utilities Holding Company Act.
3. It is interested in finding out whether the gross irregularities connected with this Company involve the commission of any crime against federal law.
4. This Department should strive for disinterested, inexpensive and prompt administration of receivership proceedings.

These responsibilities of the Government are inescapable. More than one and three-quarter million consumers patronize one hundred corporations in one-half the states of the union, providing the revenue to the Associated Gas and Electric system. Hundreds of thousands of persons hold approximately a billion dollars in face value of its securities. Exploiting both the consumers and the investors, a fantastic holding company structure has been erected upon such unstable foundations that it has collapsed.

An unusual situation of this magnitude within the economic system of the United States is a public responsibility of the first order. Since the United States Government cannot escape a responsibility to investors, to consumers, to taxpayers, and to the law for the consequences of this trusteeship, I think the Government should exercise its power to direct such trusteeship - a power that has been established by congressional statute. It was for this reason that I joined with the Treasury of the United States in suggesting that the Securities and Exchange Commission be named receiver.

In spite of the refusal of the Securities & Exchange Commission to accept the receivership, it may be possible to accomplish some or all of the proper objectives of government. I recognize, however, that in every one of these objectives the old management which wrecked the Company, and its allies in the underwriting or banking business who consciously or unconsciously were involved in the process, are unavoidably opposed to the Government. Any influence of the old management in these proceedings cannot be other than harmful. I recognize that your warning is timely, and this Department will continue to exert its influence in the direction of the accomplishment of the objectives I had outlined.

With best wishes,

Sincerely yours,

Attorney General

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 22 February, 1940.

~~SECRET~~

From: President of the United States.
To : Secretary of the Treasury Morgenthau.

Personally I think it is a mistake to refund the
June fifteenth maturities on March fifteenth. Please withhold
until I return.

*11:30 AM. Present
Feb. 22, 1940.
R. M. P.*

*For original P 2
see BK 229 P. 63*

The attached is a revised text of paragraph 2 of the Note for the Secretary of the Treasury which was handed in on the 1st February 1940.

The reduction of £17 million in this revised estimate of United Kingdom purchases in the United States during the first year of war is principally accounted for by the exclusion of purchases of:-

	<u>£ million</u>
Petroleum from Netherlands West Indies	17
Sugar from Cuba and U.S. dependencies	4
Hemp from Philippines	1
Reduction in estimate of machine tools likely to be procurable by end of August, 1940	12
and by the inclusion of	
Tobacco purchased from 1939 crop	7
Merchant ships	6
and by revision of other items.	

2. It is estimated that United Kingdom purchases in the United States (excluding its dependencies and Cuba) during the first year of war will be about £180 million. The rough analysis of these figures is as follows:-

		Million £ (f.o.b. values)
Raw Materials:		
Cotton	25.0	
Iron & Steel	9.0	
Lumber	3.5	
Wood pulp	2.0	
Other	<u>9.5</u>	49
Foodstuffs		
Cereals and cereal products	3.5	
Hog products	2.5	
Fruit	4.5	
Canned salmon	1.5	
Other	<u>1.0</u>	13 +
Tobacco (1939 crop)		7
Petroleum		13
General manufactures		23
Machine tools		31
Merchants ships		6
Air, Military and Naval Services:		
Aircraft and engines	19.5	
Munitions	13.0	
Naval	3.0	
Other	<u>2.5</u>	38
		<u>180</u>

+ Provisional estimates subject to modification owing to price factor or otherwise.

Against this the United Kingdom exports are estimated at about £30 million and the net balance of invisible exports at £5 million. The

/United

United Kingdom adverse balance thus amounts to about £145 million.

As regards the rest of the sterling area imports are estimated at £55 million and exports at £85 million, while the net balance of invisible imports is estimated at £2 million. The result is an ^{favourable} ~~invisible~~ balance of about £28 million.

Thus, for the sterling area as a whole, the net adverse balance is estimated at about £117 million, or \$470 million.

FEB. 23, 1940

CONFIDENTIAL CODE.

FOR THE PRESIDENT OF THE UNITED STATES AT SEA, VIA NAVAL COMMUNICATIONS.

(TO BE DELIVERED WHEN THE PRESIDENT ARISES)

IT IS MY BEST OPINION BASED ON THE LAST SIX YEARS EXPERIENCE THAT I PROCEED NOW WITH THE REFUNDING OF THE TWO ISSUES FALLING DUE ON JUNE FIFTEENTH STOP IN ORDER TO PREPARE FOR THIS LARGE UNDERTAKING IT WOULD BE NECESSARY TO START EARLY NEXT WEEK STOP I WOULD BE GLAD TO WAIT UNTIL YOU RETURN IN VIEW OF YOUR MOST UNUSUAL REQUEST STOP HOWEVER INASMUCH AS HERETOFORE YOU HAVE ALWAYS ENTRUSTED THESE FINANCINGS ENTIRELY TO ME I THINK IT ONLY FAIR THAT YOU GIVE ME YOUR REASONS FOR ASKING FOR POSTPONEMENT OF A MARCH FIFTEENTH REFUNDING IF FOR NO OTHER REASON THAN THAT I CAN MAKE AN INTELLIGENT EXPLANATION TO THE PRESS STOP HOPE YOU ARE HAVING GOOD LUCK FISHING STOP BEST REGARDS STOP

HENRY MORGENTHAU JR.

(Copy for the Secretary of the Treasury.)

Hurley
1940

12.15 P.M. Feb 23, 1940

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At my ~~the~~ best opinion based
on the last six years experience
that ~~I~~ I proceed ^{now} with the
resolving of the two issues
falling due on June 15 -
In order to prepare for
this large undertaking
~~I can not wait until your~~
~~return~~ I will have to
~~start next week.~~

it would be necessary
to start early next week.
~~In view of my feeling~~
I would be glad to wait
until you return in
view of your ^{most} unusual
request. However in as
much as heretofore you
^{have} ~~been~~ ^{financially} ~~entirely~~ ^{to me}
have always ^{entrusted} ~~me~~ ^{entirely} in these matters
I think it only fair ~~to~~
~~that~~ that you give me your

reasons for asking for
post payment of a check is ~~the~~
refunding if for no other
reason than that I can
make an intelligent explanation
to the press. Hope you
are having good luck fishing
Best Regards

1/11/24

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Bogotá, Colombia

NO.: 49

DATE: February 23, 1940

Yesterday when the President of the Republic called me in for a conversation regarding Colombian affairs, he began by asking for my help in connection with the loans which Colombia hopes to secure from the Export-Import Bank of Washington. While, he said, it would be possible for him to gain a great deal of political and personal prestige from public works and from purchases of rolling stock for the railways, dredges and so forth, the country would not be benefited as greatly or as permanently by such things as it would by loans which would be used for the general economic betterment of the country, particularly the betterment of agriculture, including coffee; he said that in fact purchases from the United States equal to if not exceeding the aforementioned would result from such a reenforcement of the general economy.

My reply was that I knew nothing whatever about what had taken place in Washington regarding this matter, although before Dr. Jaramillo left for the United States

I

-2-

I had suggested to him that, concerning financing of the kind which the President had mentioned, he look into the possibilities of obtaining loans to the Bank of the Republic, which, in turn, could reloan the money in Colombia. I also said to the President that perhaps it would be possible, upon an early settlement of the bankers group loan, to secure the kind of assistance he desires from private banking sources. I also indicated that in this connection cooperation with reference to gold stabilization might be considered. I added that I was anxious, as always, to help the Colombian Government.

Because I am unfamiliar with the situation, the President asked me to talk it over with Jaramillo. When Jaramillo called on me today, I only repeated what I had told Santos. Jaramillo promised that as soon as the material is prepared, he would give me the full information which will be sent to the Ambassador of Colombia in Washington.

Although I believe that Colombia's agricultural credit organizations are in a weak condition to say the least, I am inclined to agree with the fundamental thesis of the President; however, sound methods and measures must be found if his suggestions are to be carried out.

In

-3-

In view of the above, I shall be glad to have any information, suggestions or instructions which the Department may wish to send me to guide me in my talks with the President and Jaramillo.

The President said he was gratified with the accomplishment of the debt agreement and with the reception it had received generally both here and in the United States, but he said he felt it had been unfair for the Foreign Bondholders Protective Council to add to their statement approving the agreement a paragraph which lamented the fact that the guaranteed, departmental and municipal debts had not been adjusted.

BRADEN

EA:EB

February 23, 1940

Memorandum for the Secretary:

At 4:30 Mr. Berle phoned in response to Mrs. Klotz' inquiry about the negotiations in regard to Brazilian bonds.

I took his message in shorthand, as follows:

"Copies of all the relative cables should have gone forward to the Treasury. If they have not, I shall be glad if you would ask Mr. Cotton to give Mr. Duggan a ring, in which case Mr. Duggan will be glad to come over and bring Mr. Cotton up to date.

"Actual status is this: The Brazilians made an offer. We took that up with the Foreign Bondholders' Council. The Council did not like it in that it did not give, as they considered, Class 3 bonds sufficiently good treatment. Class 3 are the Federal guaranteed or Federal obligations, and the bonds which were treated best were Classes 1 and 2, bonds very largely with security, a large one what is called the Coffee Loan. Those bonds have heavier interest in England than in the United States, whereas Class 3 are very largely held here.

"Accordingly, Mr. Feis telephoned to Gaffrey asking him to urge the Brazilian Government to make better distribution as between Classes 1 and 2 on one hand and Class 3 on the other, giving Class 3 better treatment than they were getting. That's the state of affairs."

Mr. Berle said he would be out of town tomorrow but would return on Monday and would like an opportunity to see you as he had two or three things he would like to have a chat with you about.

N. M. Chauncey

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 70

DATE: February 23, 1940.

Reference is made to the Department's no. 36, 7 p.m., and no. 38, 8 p.m., of February 21.

Apparently some of the difficulties which Aranha faces here with reference to the debt are not understood by the Council: As is known by the Department, a promise by Aranha was made/with reference to the debt at Washington in March of last year, but because of the great opposition which he met when he returned here, he was unable to carry out that promise. He was attacked so bitterly from all sides and particularly by the Army that he became ill and it was necessary for him to be away from Rio de Janeiro for nearly two months so that he might recover. Since that time he has made consistent and continued efforts to persuade the Brazilian Government to resume service on its foreign indebtedness; however, he is the only one who has wanted to pay, and by taking this attitude he has risked his political future. It is only lately that the President has agreed to the resumption of service but on a reduced scale. However, there is still a great deal of opposition, and any payment which

-2-

which may be made will be the subject of criticism. At this time Aranha does not feel that he can ask President Vargas to pay more than the amount he has agreed on. (As was set forth in my telegrams no. 32 of January 19 and no. 63 of February 16, I persuaded him to increase the amount to be paid, thereby improving his offer.)

I have been told repeatedly by Aranha that he was proceeding on the assumption that even though the initial scale of payments was small, the reestablishment of the principle of paying would be welcomed by the Government of the United States, that it would be ^{at least} a beginning: There would not be an agreement but the Government of Brazil would resume payments on a reduced scale unilaterally and voluntarily.

It is of course possible that if the war continues, the foreign exchange position of Brazil will be much better in a year or two and that it would be easier to reach a more satisfactory settlement at that time than at the present time.

Yesterday Aranha made reference to the Colombian debt agreement and said that Brazil would be glad to make a similar agreement omitting the state and municipal bonds.

He

-3-

He commented with asperity on what was termed by him as the different attitudes taken by the European bondholders council on the one hand and the Foreign Bondholders Protective Council on the other hand. The French, by the way, have agreed to accept the Brazilian view with reference to the gold clause contained in franc loans.

Aranha seemed discouraged but said that he would look into the situation once more.

STRICTLY CONFIDENTIAL. I am informed by the Director of Exchange that the British would like to negotiate a clearing agreement with Brazil. As the Department knows, the favorable British balance of trade has been changed to an unfavorable one due to recent British war purchases.

GAFFERY

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 23, 1940, 5 p.m.

NO.: 253

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Last evening I had a talk with Governor Fournier of the Bank of France. He expressed to me definite views very similar to those of Rist regarding the probable autarchic tendencies of Europe after the war is over (Reference: telegram of February 21, No. 247, from the Embassy). The Governor said he believed the only possible means of counteracting such tendencies lay in whatever measures the United States might be able to take to redistribute some of its gold stocks.

Governor Fournier seemed to be discouraged because France has not taken any of the much needed steps to restrict consumption, and over a similar failure sufficiently to raise taxes.

After some slight improvement yesterday the securities market was again subject to profit taking on light turnover. Most rentes issues were down major occasions.

MURPHY.

EA:LWW

JR

PLAIN

London

Dated February 23, 1940

Rec'd 2:13 p.m.

Secretary of State,
Washington.

443, February 23.

FOR TREASURY FROM BUTTERWORTH.

In contrast to the steps taken with respect to Canadian securities and the recent vesting order in the case of American holdings, the first significant step as regards India, announced at New Delhi yesterday, is the provision of facilities for voluntary repatriation of the Indian Government sterling debt. Rupee loans are to be created as counterparts of various Indian terminable sterling loans. As sterling non-terminable 3 per cent and 3-1/2 per cent loans have already existing counterparts it is not necessary to include them in the notification but similar arrangements will be adopted in regard to them. In order to introduce these new rupee loans to the market the Indian Government will at first issue them on its own account in conversion of corresponding sterling securities purchased by them. The pertinent part of the notification is as follows: "With effect from April 1, 1940 and until further

-2- #443, February 23, from London.

further notice, holders of the several sterling loans stated above are given the option of transferring their holdings from the books of the Bank of England to rupee registers to be opened and maintained in India by the public debt offices of the Reserve Bank at Bombay, Calcutta, Delhi and Madras. The terms on which such conversion may be effected will be announced by the Reserve Bank from time to time.

"Rupee securities issued in lieu of sterling securities will not be reconvertible into sterling but may on application be encashed for payment of interest at the London office of the Reserve Bank as in the case of other rupee loans."

JOHNSON

HPD



TREASURY DEPARTMENT
WASHINGTON

172

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESSES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

February 23, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company, Bloomfield, New Jersey:

This company filed, on February 19, 1940, a request for a closing agreement in regard to special facilities required on a prospective Navy contract. The amount of cost involved is \$111,850.66.

Fulton Sylphon Company, Richmond, Virginia:

This company filed, on Saturday, February 17, 1940, a request for a closing agreement in regard to special facilities required on a prospective Navy contract. The amount of cost involved is \$32,186.00.

J. Mooney
Acting Commissioner.

IT:P:CA
CAA

February 23, 1940.

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Fulton Sylphen Company, Richmond, Virginia:

This company filed, on Saturday, February 17, 1940, a request for a closing agreement in regard to special facilities required on a prospective Navy contract. The amount of cost involved is \$32,156.00.

(Signed) T. Mooney

Acting Commissioner.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

174
STRICTLY CONFIDENTIAL

At 12:15 noon Mr. Pinsent telephoned me to give the first report which it was arranged last autumn should be made daily to the Treasury, once the British vesting order was effective. Using the key with which he had provided me under date of November 23, Mr. Pinsent gave the following figures for sales made on February 22:

12,000
405,000
Nil
Nil

When I questioned Mr. Pinsent as to how sales could be made before the date on which I understood payment was to be effected for the vested securities, he explained that certain of the securities called up were already on deposit in New York and immediately available for sale. He stated that some sales are for forward delivery; that is, payment has not yet necessarily been made. The practice will be to report to me daily the transactions as actually contracted.

I gave the above information to the Secretary at 12:25 noon. He instructed me to give him a weekly statement of these transactions.

It was understood that such data are not to be made available to the S.E.C. unless requested by Mr. Frank, and such request approved by the Secretary of the Treasury.

B. M. S.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The Spanish Ambassador telephoned while I was in the staff meeting this morning, and then again after I came out. He stated that he had replied to his Government some days ago that Secretary Morgenthau was absent from Washington, and that there were certain difficulties in the way of considering the proposition which he had submitted with the view to arranging for the sale of Spanish silver coins to this Government, the proceeds whereof were to be used in paying for Canadian nickel and the American minting thereof. The Ambassador stated that he had now received another urgent cablegram from his Government asking that he report the status of his negotiations.

After speaking with the Secretary I telephoned the Ambassador at 12:40 noon and told him "the Treasury will not consider the proposal for the purchase of silver coins from the Spanish Government while the present American silver legislation is pending."



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

176

AA

DATE February 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In an unexciting foreign exchange market sterling rose from 3.95-3/8 at the opening to 3.95-7/8 by early afternoon. The rate was steady for the remainder of the day and it closed at 3.95-7/8.

Sales of spot sterling by the six reporting banks totaled £635,000, from the following sources:

By commercial concerns.....	£ 122,000
By foreign banks (Europe, South America and Far East).....	£ 483,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 30,000
Total	£ 635,000

Purchases of spot sterling amounted to £404,000, as indicated below:

By commercial concerns.....	£ 361,000
By foreign banks (Europe and Far East).....	£ 43,000
Total	£ 404,000

The following reporting banks sold cotton bills totaling £15,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 7,000 by the Chase National Bank
3,000 by the Irving Trust Company
3,000 by the National City Bank
2,000 by the Guaranty Trust Company
£ 15,000 Total

The Federal Reserve Bank of New York purchased 50,000 belgas and 30,000 guilders for the Bank of Latvia.

The other important currencies closed as follows:

French francs	.0224-3/8
Guilders	.5318
Swiss francs	.2242-1/2
Belgas	.1688
Canadian dollars	13-1/4% discount

The discount for the Cuban peso again increased and it was quoted at 8-1/16%.

- 2 -

We sold \$3,000,000 in gold to the Central Bank of Uruguay which was added to its earmarked account at the Federal Reserve Bank of New York.

We purchased \$20,000,000 in gold from the Bank of Sweden, which was released from its earmarked account. *Leaves Nil*

The Federal Reserve Bank of New York reported to us the following gold shipments:

\$ 6,514,000	from Japan, representing two shipments made by the Yokohama Specie Bank to its San Francisco office, for sale to the U. S. Mint.
3,552,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
2,250,000	from Switzerland, shipped by the National Bank of Switzerland to the Federal Reserve Bank of New York, the disposition of which is unknown.
1,000,000	from Switzerland, shipped by the Credit Suisse to the Chase National Bank of New York, for sale to the U. S. Assay Office.
<u>\$13,316,000</u>	Total

The U. S. equivalent of the Bombay silver price was slightly lower at 39.60¢.

The London prices for silver continued to decline and both spot and forward were fixed at 20-3/16d, both off 1/16d. The U. S. equivalent for the spot price was 35.94¢ and for the forward price 35.76¢.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made seven purchases of silver totaling 807,000 ounces under the Silver Purchase Act. Of this amount 407,000 ounces represented sales from inventory by two refining companies, and the remaining 400,000 ounces consisted of new production silver from various foreign countries, for forward delivery.

B. M. F.

February 23, 1940

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

I have pleasure in attaching, for your personal information, a photostat copy of a secret memorandum handed to me yesterday by Mr. Pincent, Financial Counselor of the British Embassy, which revises his earlier note of February 1, a copy of which I transmitted to you under cover of my letter dated February 6.

Sincerely yours,

Secretary of the Treasury.

Enclosure:
Photostat copy of memorandum. 

The Honorable
Cordell Hall,
Secretary of State,
Washington.

By Messenger / ³⁰ pms 2/23/40
RD/rm 2/23/40

Present
22-1-40
M.F.

The attached is a revised text of paragraph 2 of the Note for the Secretary of the Treasury which was handed in on the 1st February 1940.

The reduction of £17 million in this revised estimate of United Kingdom purchases in the United States during the first year of war is principally accounted for by the exclusion of purchases of:-

	<u>£ million</u>
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and by revision of other items.	

2. It is estimated that United Kingdom purchases in the United States (excluding its dependencies and Cuba) during the first year of war will be about £180 million. The rough analysis of these figures is as follows:-

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United Kingdom adverse balance thus amounts to about £145 million.

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Thus, for the sterling area as a whole, the net adverse balance is estimated at about £117 million, or ~~£~~470 million.

TREASURY DEPARTMENT
Office of the Secretary 182
Technical Assistant to the Secretary

Date 2/23/40

TO:

Miss Chauncey

Room

After showing
the orig. memo &
its enclosures, to
the Secretary, I
forwarded the docu-
ments to Dr. White

From: MR. COCHRAN

M.S.

February 23, 1940

Secretary Morgenthau

Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with your instructions, I have had prepared and attached hereto, photostat copies, in single only, of the following documents:

(1) "Note for the Secretary of the Treasury regarding British dollar requirements," received from Mr. Pinsent at 4 p.m., February 1, 1940.

(2) The French text of a memorandum dated February 1, 1940, in regard to French Government expenditures in the United States, received from Mr. Truelle of the French Embassy at 4:15 p.m., February 1, 1940.

(3) "Personal message from the Chancellor of the Exchequer to the Secretary of the Treasury", handed to the Secretary on February 6, 1940, by the British Ambassador.

(4) "Notes for the Secretary of the Treasury on the British foreign exchange position", received from Mr. Pinsent at 5 p.m. on February 15, 1940.

(5) A memorandum received from Mr. Pinsent on February 22, 1940 to revise the above listed British note of February 1, 1940.

These I understand to be the documents which you desire to give to Dr. Harry White.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE 2-23-40

TO Secretary Morgenthau
FROM Mr. Foley

The Monetary Subcommittee of the Senate Banking and Currency Committee has reported favorably Senator Townsend's bill to repeal the existing powers to purchase foreign silver. The bill is now before the full committee for consideration. The bill leaves untouched the provision passed last July requiring the Government to purchase newly-mined domestic silver at the 71¢ price for an indefinite period of time.

Last June a similar proposal by Senator Townsend was passed by the Senate as a part of the monetary bill which also extended the stabilization fund and the powers to buy newly-mined domestic silver. When the bill was considered in a conference between the House and Senate the Townsend proposal to stop buying foreign silver was eliminated.

If the Townsend bill were passed, the price of foreign silver would decline substantially. The amount of the decline cannot be foretold accurately. However, it is not inconceivable that silver might fall as low as 20¢ an ounce, at least temporarily, particularly in view of the fact that at present the importation of silver into England and India is prohibited except under license. Such a decline in the price of silver might impair the ability of certain silver-producing countries to obtain such needed foreign exchange.

The outstanding example is Mexico. Peru, Canada and Honduras are other countries in the Western Hemisphere producing substantial amounts of silver.

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In determining the position to be taken respecting the Townsend bill consideration should be given to the following:

- (1) Would our export trade be adversely affected, particularly with silver-producing countries?
- (2) Do we want to see the Mexican economic and financial situation deteriorate at this time?
- (3) Would our good neighbor relations, particularly with Latin America, be adversely affected?
- (4) Would it be possible through the medium of the Inter-American Bank or other devices to increase the use of silver in the Western Hemisphere?
- (5) Would it be preferable gradually to lower the price of foreign silver to say 30 cents an ounce instead of stopping all purchases?
- (6) If world silver prices declined to 20 cents an ounce, would the disparity between that price and the price paid American miners increase to such an extent that there would be great pressure to terminate or reduce the subsidy paid for newly-mined domestic silver?
- (7) Does the purchase of about \$70,000,000 of foreign silver annually (200,000,000 ounces at 35 cents an ounce) constitute a significant addition to excess banking reserves which now total more than \$5,000,000,000?
- (8) In purchasing foreign silver should we attempt to discriminate against silver coming from certain countries?
- (9) If foreign silver purchases are stopped should there also be eliminated from the law the 50% profits tax on silver? This will permit the reestablishment of a silver market in New York.

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(10) Would the passage of the Townsend bill and the consequent decline of the market price of silver be used as a political weapon against the Administration in the coming campaign? Would the situation given strength to the argument that the Administration's silver purchase program was an admitted failure? Even though the Government pays for silver by issuing silver certificates and without increasing the public debt, it will be argued that the silver purchase program has resulted in a great loss to the Government since silver was purchased at an average of about 51 cents an ounce and may be selling for as little as 20 cents an ounce if the Townsend bill passes.

(11) Should the Wagner Committee be asked to study the silver problem as a part of its study of the entire monetary system.

Allied Plane Orders

French, British Reach Tentative Decision On Additional Buying

But Extent of Program Depends On U. S. Industry's Ability To Deliver Equipment

Results of Survey Awaited

From THE WALL STREET JOURNAL Washington Bureau

WASHINGTON—The French and British governments have reached a tentative decision to proceed with their plans for placing additional large orders for aircraft and engines with American manufacturers, it was reported here yesterday.

Sources close to those governments described the negotiations on the new contracts as still in a preliminary stage, and asserted that a decision on the quantities and types involved in the contemplated program will not be reached until technical surveys now underway are completed.

The size of the new program will be governed largely by the capacity of the industry for production of the required types for relatively quick delivery, it was stated. In this same connection, it was indicated that the additional contracts, when and if placed, probably will be concentrated directly among a relatively small number of producers, but with provisions for a substantial volume of sub-contracting in order to make use of all the available facilities of the aircraft industry.

It was also indicated that before any additional aircraft orders are finally decided upon, clarification also will be sought on such questions as the ability of the machine tool industry to meet the expanded requirements of the aircraft industry, the availability of certain raw materials and the problem of income taxes on capital expenditures in this country.

Secretary of the Treasury Morgenthau has been conferring with representatives of the machine tool and airplane engine industries for several weeks in an effort to accelerate delivery of machine tools required for expansion of productive capacity in the engine plants. The outcome of those discussions has been an agreement by the machine tool makers to give priority to the needs of the engine manufacturers, while some expansion in machine tool production capacity also is contemplated.

On tax questions, the Treasury thus far has adhered to the view that contributions by the British or French governments for expansion of productive facilities here constitute taxable income to the domestic manufacturers.

The only direct ruling on this question up to the present concerned a contract between the Atlas Powder Co. and the British purchasing board whereby the British loaned Atlas funds for construction of new facilities required for execution of a British order. The Treasury ruled that those payments would not be taxable at the time received but officials held that if any part of the loan subsequently was written off by

Allied Plane Orders

Continued from First Page

the British the payments would become taxable to that extent.

The airplane and related industries in the United States have been preparing for some time for a coordination of Anglo-French buying which is expected to develop into the largest procurement program in the industry's history in the United States.

From the American manufacturer's viewpoint, the problem has been how to handle the gigantic orders which are expected. This involves a coordination of all manufacturing facilities to insure an easy flow of supplies of all kinds into the finished product, as well as avoidance of undue expansion of plant facilities which would develop into a white elephant for the industry in later years.

Under the present set-up, with the individual aircraft manufacturers operating in an uncoordinated plan, deliveries have been running at about \$30,000,000 per month, including the planes themselves, engines, propellers, equipment, spare parts, etc. This is being stepped up rapidly and a \$50,000,000 monthly delivery rate is expected to have been attained by the end of the year.

Greater Effort for Program

The program which England and France envisage, however, calls for a far greater effort. Provided the American manufacturers can fulfill the demand, it has been estimated that the Anglo-French orders can reach 6,000 to 8,000 bombers plus upwards of 2,500 pursuit ships of modern design. Total cost of these together with full equipment would run in excess of \$1,000,000,000.

These are all in addition to the orders already placed here by the Allies. Deliveries, it is believed, would be called for by the latter part of 1941 and would mean monthly deliveries of about \$85,000,000.

The potential of the American manufacturers has been under close study by the purchasers and representatives of the makers for the past several weeks. A detailed study of the situation here was taken in London some weeks ago and Secretary of the Treasury Morgenthau has been engaged in a comprehensive survey to avoid bottle necks in the industry here.

Farming Out of Business

There now is being developed a program for the farming out of business, particularly in the related machine tool and engine businesses. Under this program, business would be let out in sub-contractors for parts, thereby freeing major plants for additional work.

The tool makers have presented one of the greatest problems. It takes roughly three months to train additional men for the manufacture of precision machine tools, and anywhere up to eight months would be necessary before deliveries of new equipment could be begun. To get around this difficulty, facilities of other industries already doing precision tool work would be called upon, including automobile lines and other metal working plants.

Much the same difficulty would be faced by the aircraft engine makers but by coordination and standardization of parts wherever possible, other motor makers could be drawn into the program.

The manufacture of airplanes themselves has never lent itself to mass production methods, as in automobiles, for reasons inherent in the industry itself. Considerable progress toward farming out of certain parts of the work is possible in this direction.

Parts Produced Outside Plants

Parts such as wings, rudders, ailerons, elevators, fins and stabilizers, for example, can be designed and produced in outside plants. As a matter of fact, one of the larger plane manufacturers has been negotiating with Goodyear Tire & Rubber Co.'s subsidiary, Goodyear Aircraft Corp., for the manufacture of a quantity of metal and metal-and-fabric airplane tail surfaces.

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Aviation Awards

OTTAWA—Of \$10,586,516 in orders given in week ended February 17 by the War Supply Board, \$7,273,672 goes to aviation companies.

This is for approximately 300 aircraft and supplies for use in connection with the British commonwealth air training plan. Most of the planes are Harvard advanced trainers and De Havilland Tiger Moths.

Orders over \$50,000 were as follows: Northrop Aviation, Ltd., Montreal, \$3,001,971; De Havilland Aircraft of Canada, Ltd., Toronto, \$2,057,848; Irvin Air Chute, Ltd., Ottawa, \$1,108,008; Fleet Aircraft, Ltd., Fort Erie, \$1,038,675; Dominion Textile Co., Ltd., Montreal, \$505,687; Canadian Cotton, Ltd., Montreal, \$235,487; Montreal Cottons, Ltd., \$28,500; Eagle Shoe Co., Ltd., Montreal, \$148,500; H. S. Hilden, Ltd., Ottawa, \$55,013; Metallic Roofing Co. of Canada, Ltd., Toronto, \$100,971; Firestone Tire & Rubber Goods Co., Hamilton, Ontario, \$62,250; Northern Electric Co., Ltd., Montreal, \$159,937; Canadian Telephone & Supplies, Ltd., Toronto, \$150,815; Acadia Construction Co., Halifax \$650,000; British War Office, \$507,000; the United States Ordnance Engineers, Inc., Cleveland, \$123,775.

GROUP MEETING

February 23, 1940.
9:30 a.m.

Present: Mr. Gaston
Mr. Graves
Mr. Haas
Mr. Thompson
Mr. Sullivan
Mr. Cotton
Mr. Schwarz
Mr. Bell
Mr. Cochran
Mr. White
Mr. Foley
Mrs Klotz

H.M.Jr: Anybody who is interested can get copies from Schwarz of the letter from myself to Norris on Associated Gas & Electric. I don't think any paper has it in full, due to the lateness of the hour last night.

Sullivan: The Times pretty well covered it.

H.M.Jr: Have they?

Schwarz: But we have copies of it.

H.M.Jr: Any comments as of this morning?

Schwarz: Just interest, no side comments.

Sullivan: The reaction I got from reading the story was that the Securities and Exchange Commission have changed their minds and didn't want to say so and you and the Attorney General were inviting the Court to ask them again.

H.M.Jr: Yes.

Sullivan: That is the reaction I got.

H.M.Jr: The second part, definitely, and also this stuff about whether I knew or didn't know. Don't you think we pitched it on a good plane?

Sullivan: I think it was swell, but I mean the reaction I got reading it was that the boys had changed their minds and so they whispered and this

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article was to inspire another request by the Court for them to accept.

H.M.Jr: We want that clever.

Sullivan: That is the way it read to me.

H.M.Jr: O. K.

Sullivan: I don't think the ordinary fellow reading that is going to believe anything else. They certainly don't know of the difference of opinion that has been shared by the Treasury and the SEC.

H.M.Jr: But it certainly helps like hell to have the Treasury and Justice together on this.

Sullivan: Yes, I think it does, too.

H.M.Jr: Anybody else read it and get a reaction?

I have here a clipping. As usual, Townsend gives this stuff out before I get it. He is going to ask me to go up on the Hill and Bell and White and I are seeing Mr. Hull at 10:30 and who has - Harry has that legislation on silver.

White: Who has?

H.M.Jr: I asked for a summary of the legislation, but Foley isn't here. He must have run out of gasoline this morning. I am going to buy you all electric vehicles.

Sullivan: Let's get that in writing.

H.M.Jr: I will buy them if you can find one.

Sullivan: There is one right up on Massachusetts Avenue.

H.M.Jr: I mean a 1940 model.

Sullivan: Oh, we might get it reconditioned.

Schwarz: Bernstein, I believe, is working up that --

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Cochran: He is working on silver now.

White: Are you going to see Mr. Hull at 10:30?

H.M.Jr: Yes.

White: I would like to see you about ten minutes before and let me prepare a one-page statement of the reasons why --

H.M.Jr: Reasons why?

White: Why you should take whatever position you are going to take.

H.M.Jr: What did you say, Harry?

White: I said take the position you are going to take.

Klotz: He is going to prepare something.

White: I am going to prepare a one-page statement for the reasons --

H.M.Jr: I will tell you my position and I don't think it will take you ten minutes to write the memorandum.

White: It might take me a little longer than that, possibly, to modify it. I don't know. It is only going to take you one minute to tell me and maybe it isn't what I thought it was going to be.

H.M.Jr: Go on, Mr. Smarty, what did you think it was going to be.

White: I thought the position you were going to take would be the Administration position.

H.M.Jr: What is that?

White: To oppose the repeal of the purchase of foreign silver at this time.

H.M.Jr: Well, you are wrong.

White: Then I need more than ten minutes. Then I think I would like to talk it over with you before.

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H.M.Jr: I thought you would.

White: How can we, if we are going over at 10:30? I will get a chance to see you before 10:30?

H.M.Jr: Maybe right after this meeting.

White: O. K.

Bell: You don't need anything, do you?

H.M.Jr: No.

Harry, this is my position, see. My position is that we have been operating under a mandate of Congress and I believe that in the past the purchase of foreign silver has been helpful, particularly if they press me, in the case of China, Spain and in North and South America. Now, if Congress wants to change this mandate, I can't see any great harm will be done.

White: That any great harm will be done?

H.M.Jr: Yes. And I don't know of any economic reason why we should continue it.

White: Up to the last sentence, I think it is quite all right to state. I think they will push you to - however, they may not be satisfied with that and they may ask you that they feel that they have a right to expect you to give them advice as to the wisdom of the change, in which case it will be necessary for you to either recommend it or disapprove it, which you did in your last statement, the last sentence, I mean, and the last sentence I would like to see changed or modified, because I agree that no great harm would be done but I do think there are economic advantages that flow from the purchase of silver, of a small order.

H.M.Jr: Damn small.

White: But at least they are not on the negative side.

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- H.M.Jr: How are you going to answer this argument of the Federal Reserve on the excess reserves that the additional silver just means excess reserves?
- White: With excess reserves over five billion, additional purchases of 50 to 60 million dollars a year is so trifling that anybody who mentions it must have his tongue in his cheek.
- H.M.Jr: Will that go over with the Federal Reserve, from Mr. Eccles down through? The whole Federal Reserve System is opposed to this.
- White: I think they are all very stupid about it on those grounds. They may have other grounds, but on the face of it, any assumption that an increase in excess reserves by anything like 50 or 70 million dollars at this time --
- H.M.Jr: Have you read their statement?
- White: I read the Counsel's brief statement.
- H.M.Jr: And Mr. Eccles' repeated statement on silver?
- White: I am familiar with it and I still think it is stupid.
- H.M.Jr: Let's put it the other way. It is a free fight. Anybody can get in on this.
- White: It does increase our exports somewhat. It does increase employment somewhat. Those are two gains on the positive side. There is no economic loss involved and the only objection which can be legitimately raised is the fact that it increases excess reserves and that statement taken by itself seems to be meaningful until you examine the quantities involved and when you examine the quantities involved, the statement is beneath the dignity of anybody who knows anything about the subject, I think.
- Cotton: Wouldn't it be better to spend the same amount of money here, Harry?

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- White: That is an old argument, but the fact is you wouldn't spend it here. That is not the alternative.
- Cotton: China hasn't got any silver left, has it?
- White: You are not being asked whether you should spend the money here or abroad. You are merely being asked whether you should continue to buy foreign silver. The mere fact that if you discontinue the purchase of foreign silver doesn't mean that you are going to add 70 million dollars to the budget to be raised out of silver certificates. No, I think that on economic grounds, again within small limits, and I think your first statement is quite right, there would be no great loss, because it is a matter of secondary importance, but such importance as it does have lies on the positive economic side and not on the negative side.
- Cotton: If this thing is open - I had lunch with Duggan the other day and he said that he had a talk with you (Bell) on this and he had had a hard time with Mr. Hull.
- Bell: I thought the purchases were about 150 million dollars a year.
- White: It cost last year, I think, 70 million dollars for foreign silver. I think that is what it was in 1939.
- H.M.Jr: Let me ask, this discussion is going to help me do my home work. How many ounces of silver were mined in the world in 1939 and what part of it was in the United States?
- White: Well, I can give you only rough figures. About 250 million ounces, and I will have to check on that because I haven't seen the 1939 figures.
- H.M.Jr: Well, 250?
- White: Around that, and I guess about 65 million ounces were in the U. S.

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H.M.Jr: How much did we buy last year in silver?

Cochran: One hundred fifty-nine.

White: No, I think we bought a little more than one hundred fifty.

Cochran: One hundred fifty-nine.

H.M.Jr: Out of a possible one hundred eighty-five?

Cochran: Yes.

H.M.Jr: You will have to brush up, yourself, on that.

White: Yes, I will. I didn't know this was coming up.

H.M.Jr: And also I want to be brushed up on what proportion of the total newly mined - how much is the newly mined gold and how much did we buy last year, and so forth, and they will put me through the whole ring if I have got to go on the Hill on this stuff.

White: Well, there will be plenty of time.

H.M.Jr: Harry, just to switch a minute from this really very pressing, economic argument for the continuance of the silver purchases --

White: Well, no one has found a hole in it yet since I have been in Washington.

H.M.Jr: Anyway, I will introduce you to a few people who --

White: I think I have met most of them.

H.M.Jr: The reason I say this very profound argument on this high plane - and now we will go down in the depths and become political, see.

White: That is right.

H.M.Jr: Everybody is telling me for political reasons I must argue against the bill and this is why,

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in my humble opinion, I think that is childish and stupid, and that is this reason: I am convinced that Mr. Townsend has plenty of votes to put his bill through. If we go up there, the Administration, and make a fight and get licked, then it is a great victory. If I just go up and take the same attitude I did before and be negative and the thing slips through, it is an empty victory.

- White: I am afraid I don't feel that way about it. I think politically it would be most unwise not to attempt to defeat it. Now, whether - if you are not going to be successful, then that is a different story.
- H.M.Jr: Attempt to what?
- White: Not to oppose the repeal.
- H.M.Jr: My proposal is to just take a negative position.
- White: I would rather put it not to take a strong position.
- H.M.Jr: Just a negative, because I personally don't believe in the extension.
- White: Again I think your reasons for it possibly are wrong, but you are entitled to your opinion.
- Cotton: Isn't it true that the State Department is going to take the position they see no reason for foreign policy for the continuance of this?
- H.M.Jr: That is why we are going to see Mr. Hull.
- Cotton: Larry Duggan told me he had a hard time with Mr. Hull after talking to you (Bell), and that Hull wanted to go out and say the State Department saw no reason for the continuance of the purchase of silver and what the Treasury Department had to say was a different thing from a purely monetary angle.
- White: I think the reason - Townsend wants it to be repealed. If the purchase of foreign silver

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were repealed now, I don't know where silver would go to, but it would probably go down at least in the early part, very substantially, and one important portion of the silver program by the Administration - I am speaking from a purely political point of view now - will have been begun, initiated and completed and would have been a very patent flop. They would have started to purchase silver and they would have ended the purchase of silver. They would have made an important mistake and recognized the mistake which they didn't know through seven years but only did it because the Republicans rammed it down their throats and instead of helping the silver market they have driven the price of silver down - it may even go down as low as 20 or 25 cents, as a first impact, because after all, you are buying most of the foreign silver and if you announce to the world you are going to stop buying that silver, I don't know where the price of silver would go, and the Mexican peso has declined sharply. It will decline much more. It will look like a failure on the part of the Administration monetary policy of the first magnitude. They will dress it up. They need material. That is why they want it repealed.

H.K.Jr: But Harry, I won't argue with you on their statement. Let's just take it at its face, for the moment. Let's say everything you say is so, and I go up and put the same fight in on this thing that I did to get through my stabilization last year and I get licked.

White: I don't recommend that. I think you are quite right.

H.K.Jr: One of the reasons I know I am going to get licked, the fellow that helped me the most, and he has never lied to me, is Senator McNary and McNary was one of the five silver Senators. You remember. I saw McNary. I went to his place for dinner about ten days ago and McNary told me he was going to put this thing through. He said, "I have changed. I am no longer interested and we are going to put the thing through." Now, he has never lied to me and don't forget he is one of the five.

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White: Let me say this, in response to that, because you are raising an important point. A, I definitely do not feel that you should make a strong stand.

H.M.Jr: O. K.

White: That is very different, however, than saying that the matter is of no great loss, but such as it is, there is a net economic gain that accrues to the United States by the repeal. They will be increasing unemployment here and reducing our trade. Now, with respect to its being loss or gain, I think the matter will become a pretty clear cut issue, not between New Dealers and the others, nothing of that sort, but between the Democrats and the Republicans and there is that possibility. I still think you oughtn't to oppose it.

H.M.Jr: You have got to have the old Garner-Pat Harrison group, see.

White: Are they eager to have the Democratic Administration look silly on its sillier policy? This isn't the New Deal.

H.M.Jr: The Garner-Pat Harrison group will vote with Townsend.

White: I say, even assuming that is so, I still think it is your function, if you oppose the bill, if you say, include that last sentence, which, if I remember correctly, was to the effect that it was an economic loss, then I think that you are subject to the charge that, "Why didn't you make that clear, why didn't you tell us that before, why did you come before us last year - before the Silver Committee - and take the position that you would not comment on this, that that was a mandate of Congress and as long as it was a mandate you were going to continue?" After all, there is a certain responsibility which the Secretary of the Treasury has which is not merely in carrying out Congressional Acts, but it is in advising Congress, when asked, as to the wisdom of those policies and I think you consistently must take the position

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and you legitimately can, and I would again like to utter my objection to those who say it is an economic loss and say, "Show me where it is an economic loss." It isn't an opinion which I alone hold. Men in my staff and all economists that I think highly of in the monetary field will agree with me.

H.M.Jr: That it is or is not?

White: It is not an economic loss. It is a matter of secondary importance. There are small amounts involved. It was initiated for rather silly reasons and supported for sillier reasons, but that doesn't make the criticism which is being directed against it valid.

H.M.Jr: That is two "sillies." You surprise me.

White: The support and initiation.

H.M.Jr: Yes. I always thought so, that is why I don't want to defend the damn thing. That is just the reason I don't want to be more silly than I have to be.

White: That doesn't mean there may be some good reasons for its continuation. They simply paid attention to absurd reasons. It is very simple to show that the chief defense for the Silver Purchase Act, as it has been made by Congress, is invalid, because the people who defended it knew only a little less than the people who criticized it.

H.M.Jr: I will give you a chance to speak, Herbert. I want to get this Larry Duggan-Mull thing straight in my mind. I don't quite get the significance of that.

Cotton: Well, I had lunch with him the other day and I asked him - it was in the newspapers about what happened in the Committee and he said that he talked to you, Danny, and he said --

H.M.Jr: To who?

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Bell: Talked to me.

Cotton: He said that he had had a hard time getting Mr. Hull to temper his statement to the newspapers, that Hull had wanted to come out and say so far as the State Department is concerned, so far as he, Hull, was concerned, he saw no reason in the foreign policy for the continuance of the purchase of foreign silver. If the Treasury saw some other different monetary reasons or something, that was their business. That is the kind of statement Hull wanted to put out and Larry got him to temper it down.

H.M.Jr: Did he put out a statement?

Bell: He wanted to make that statement and before he made it he called in Sumner Welles and Welles had told him of his conversation with me and my conversation with the President and then he told Larry Duggan to call me and say that he wanted to put out this statement and I said that I didn't think he should do it and for him to talk to you. Well, Larry said, "I will tell him that," and called back --

H.M.Jr: Until he talked to you?

Bell: To you. I told him I didn't think he should put that out until the Treasury and the State Department had got together, what each of them wanted to do.

H.M.Jr: I was confused, reading your memorandum. You were talking about Hull and I didn't know when you were referring to me when you said, "Secretary."

Bell: Oh, I thought I was talking about Welles. I didn't talk to Hull, I talked to Welles.

H.M.Jr: You kept referring to the Secretary and I didn't know whether you meant Hull or me. That is why I wanted to get this thing straight.

Bell: About ten minutes after I talked to Larry Duggan, he went in and talked to the Secretary and came back and told me and he said the Secretary is

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going to say that while this is a subject that is primarily under the Treasury, they don't want to say anything at this time until they consider the matter and talk to the Treasury.

H.M.Jr: Then I saw Barkley two or three nights ago and he said, "For heaven's sake, make up your mind." He said, "I have held it forth and didn't get the information when I asked for it," and so forth and so on, and he takes the position this is a good thing and we should continue it.

Bell: Well, Barkley - I called him on the phone and he got out by saying he had asked for the information three weeks ago and before I got through it was three days ago and Larry Barnard said it was the day before and Larry was on his way then with the information.

White: There, Mr. Secretary, I think the ideal solution would be in the long run - and that is why I would like to see you shape your policy accordingly - is that if, as we hope, business improves by --

H.M.Jr: What?

White:business improves and if, as some of us hope, the Democrats come back, then I think it would be an appropriate time if the two would come together - well, I was thinking of some of the citizens of the United States.

Schwarz: Majorities?

White: Then I think that would be a very appropriate time for you to take the position that the Silver Purchase Act, both foreign and domestic, should be repealed on monetary grounds, because then I think you will be able to support yourself with every economic ground and you will not be vulnerable, as I think you are now.

H.M.Jr: Wait a minute, Harry. What I am going to say is 50 percent facetious and 60 percent serious. You say that - I take it there is going to be a campaign this fall between the Republicans

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and Democrats and you want me to continue advocating the Silver Purchase Act until after election.

White: No, you are distorting what I have said.

H.M.Jr: And then by that time business will have picked up and it is all right.

White: You are distorting what I said. Shall I repeat what I said? I think you misunderstood.

H.M.Jr: Go ahead, Harry.

White: I think that the economic grounds for the defense of the silver policy will cease when business becomes much better and unemployment is reduced.

H.M.Jr: What I want to get is, is that coincidental with the reelection of the Democratic party?

White: That will remove the economic grounds and will make it possible for you on purely economic grounds to --

H.M.Jr: What you mean is, it will remove the political grounds then and we are all right on the economic grounds.

White: No, I was coming to the political, too, and then as I say, I take it that we want the Democrats to come back, because we expect business to be better if they do, rather than worse, so that I take it it is a reasonable assumption next year business will both be better and the political reasons for opposing it will be gone, because it will not be before election - you will not be putting that tremendous weapon in the hands of the Republicans. They will make a great deal more of it than it deserves and you will be on sound economic grounds and if I may say so, I don't think you are on sound economic grounds for opposing that purchase now.

Cotton: Isn't the foreign purchase of silver just an easy way of spending money? You say it is no economic loss to issue a silver certificate and not get an asset. If you could spend money

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in this country on relief or something, it would be better.

White: Are you speaking as an economist or a lawyer or as a layman?

Cotton: As a layman.

White: As a layman, those would not be issues. The issue is not whether you shall spend more money at home or abroad. That is always an argument which you can use against any type of expenditure, that there is a better way of doing things, but it so happens that merely by not doing it the bad way doesn't mean you do do it the better way. If that was the issue, I would agree with you, that if you would take - I don't know if I would agree or not, but I hold that is wholly irrelevant. That is not the issue.

Schwarz: Why don't we take the position, Mr. Secretary, as we do with gold, that silver is silver no matter where you find it?

H.M.Jr: For God's sake, don't do that. I've explored this thing, whether this silver thing is a stalking horse to go off gold, and I am convinced it isn't, and if I took that, then I would be - then I would really be worried. I have been trying to find out if Townsend is going to have to --

Schwarz: My point is to refer it back to Congress, because they still have in their books the monetization of silver.

H.M.Jr: The difference is this, Chick. I can go to town on this gold business for 35 dollars and against the demonetization and all that stuff, and I believe it, you see. I am thoroughly convinced that what we are doing, until somebody can tell me something else - and the Aldriches and the Burgesses and all the rest of them have yet to produce any plan - well, I mean it is nothing and nobody has been able to produce a plan which is effective, other than what we are doing, but on this silver thing, if I had that deep feeling, I wouldn't hesitate.

- 16 -

- Schwarz: Then let's either recommend demonetization or the whole thing, domestic and foreign.
- H.M.Jr: Give Gaston a chance.
- Gaston: I wanted to say that I think, as Harry thinks, there is a real danger in taking an indifferent attitude in saying it doesn't make any difference, that you have no position, because while you have said all along that this is a mandate of Congress and you are carrying it out, yet we have gone to Congress and asked for its removal more than once.
- H.M.Jr: Is that correct?
- Gaston: Yes, we have. We have asked for it.
- H.M.Jr: Wait a minute. Am I not buying, under the '34 law, foreign silver?
- White: You are buying it under the Silver Purchase Act and the other one under the '33.
- Gaston: These powers were renewed in the renewal of the monetary powers at the last session.
- H.M.Jr: Not for the foreign silver?
- Bell: No.
- H.M.Jr: You are wrong, Herbert.
- White: The reason I think possibly for the slight misunderstanding is that the change was made in the last Act, but I don't think the Secretary ever asked for a - couldn't ask for a renewal of the Silver Purchase, because it never ceased but what he - but I think you are on sound ground, definitely, in stating that he did not oppose it.
- Gaston: There is another point and that is the - he did not oppose it, and another thing is the execution of it. You are empowered to buy silver at such times and such prices as you deem to

- 17 -

be in the public interest and you have deemed it continuously since the Silver Purchase Act to be in the public interest to buy practically the whole world output of silver at varying prices. You have consistently followed that policy. We are buying now just about the world output of silver and it seemed to me if you say that there is no good reason for continuing that policy, then you are saying there is no good reason for doing what you have done under the discretionary powers given to you in the last four years.

White: I would go further than that. I would say he has violated the privilege. He has known himself that it is bad economically and therefore against the public interest. The law has demanded that he buy under those conditions which were in the public interest, and he is admitting that he has violated it. I don't see how you can do it, Mr. Secretary. You can't.

Foley: Why can't we say, Mr. Secretary, that these are very troubled times and ask that the whole silver question be taken up by the Wagner Committee in connection with this monetary study and action at this time be deferred until a comprehensive study has been made by the Banking and Currency Committee and an opportunity to go into all the ramifications of the problem afforded and take the thing up comprehensively next year.

White: That is right, in addition to the statement that he made originally, plus the fact that it does do some good. I think that additional statement would be very excellent, but I think it must be coupled with the position that this does have economic benefits, though of no great --

Cochran: Does it have monetary benefits?

White: Yes. What is the difference between monetary and economic? They are the same thing. Monetary repercussions are significant only in so far as they have economic - is it impertinent to ask this question, Mr. Secretary? There are a lot

- 18 -

of people in this room who have opposed the purchase of silver. Would it be impertinent to ask them why? On what economic grounds do they assume that the continued acquisition of foreign silver constitutes a loss to the American people, an economic loss? I would like to hear that question answered.

Bell: What you say would be the same, Harry, if you bought any other commodity of an equivalent value.

Schwarz: Is it a commodity?

Bell: Certainly, what else is it?

Gaston: I should think the State Department would want to do some dickering with Mexico on this thing.

White: Herbert, may I still comment that my question remains unanswered, so far. I will be glad to answer Danny's question, but for five years I have sat here and listened to how the purchase of silver on every hand has been bad economically and I have yet to hear a reason why it is bad. There are many reasons why the things which they say in defense of silver are bad. The Lord knows I would be the last to want anybody here to identify themselves with the stuff that Pittman is handing out, or the rest of the silver Senators, but I am putting it on a different level, on a much less important level, but nevertheless, on economic grounds, I would like to know why the purchase of silver under conditions which have prevailed in the past five years has constituted an economic loss to the American people. On the contrary, I hold that it has brought some gains of a small order, but gains, nonetheless.

Cotton: Well, don't you spend a lot of money - it does stimulate exports some, but not to the extent of the money spent. Therefore, there would be a better way of doing it.

White: I will have to give you some stuff to read on it. I presume that you start with some knowledge of the subject.

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- H.M.Jr: Well, it has been helpful, anyway.
- White: Well, I had to make the most of my time, Mr. Secretary, if you are going to take the position at half past ten.
- H.M.Jr: What have you been doing? You say you haven't been making the most of your time?
- White: I say I have to make the most of this half hour. If Mr. Hull is going to take the position that it is of no interest to the State Department, no matter what I say on the Hill, it is just gone.
- Bell: I think you are out on a limb if he takes that position.
- White: Why are you out on a limb, Mr. Secretary?
- H.M.Jr: Harry, I know what you think and I have listened very carefully.
- White: No, I want to answer that, Mr. Secretary. I don't want any answer to go that appears to be a significant one. I think I have got a competent answer, if I may.
- H.M.Jr: Go ahead.
- White: No matter what the State Department says, the State Department can very legitimately and very well say that this is none of our business and it still remains that it is a monetary matter and it is your responsibility to take a position on monetary and economic grounds.
- Bell: If they take that position --
- Gaston: I think it would be a very much worse position to surrender and say this has all been bad, we will give it up. I think that is terribly dangerous politically. It isn't so bad to go up and say conservatively what you think are the advantages of maintaining this policy. There is still room for argument. But if you intimate the thing ought to be thrown overboard,

- 20 -

that is a concession which we can't answer of a huge mistake of policy of this Administration which has persisted for more than five years.

H.M.Jr: Well, let's just get off this a minute.

Sullivan: May I ask one question?

H.M.Jr: Sure.

Sullivan: Is there any good reason that existed for this policy at the time it was adopted and has existed during the years which we followed it, Harry, which has now disappeared?

White: The same reasons exist now that existed when we started.

Sullivan: The answer is no?

White: I am not sure. It is a little difficult to answer. Let me put it this way, that the policy did bring some good. It is most unfortunate that you have to accomplish good results by such cockeyed policy, but it does bring some good results and it brings as many now.

Sullivan: That doesn't answer it.

Gaston: His answer is no, I think.

Haas: The level of business is higher now.

Sullivan: Then there isn't the same reason now for continuing it that there has been in the last few years?

White: I should say so, with some modifications, a little less.

Sullivan: You mean there is not quite as much reason for continuing it as there has been?

White: Not quite as much. Certain things that they had hoped to accomplish which any one who

- 21 -

knew the subject could have told them they wouldn't have accomplished, and which they were told they wouldn't accomplish, have become patent now, and as George says, unemployment is a little less, business better, and if business improved substantially all economic grounds would increase and it would become a bad economic measure.

Sullivan: Would it be fair to say that the gains that have already been made, plus those that may be anticipated, justify a change in position at this time?

White: I don't think so.

Faas: I should think, Harry, you could work up a statement to say - you analyze economic goods on the basis of the benefit it does the country. You could work out a case that since that time other more effective instruments have been put in which take its place.

White: No, they don't replace it.

H.M.Jr: Let me take the strongest argument for continuing this, Harry. I am going to take the other side.

White: All right.

E.M.Jr: The strongest argument for continuing this thing is this, certainly world trade is at its most chaotic stage it has been since I have been here.

White: Since the world has begun.

H.M.Jr: Now, to add another factor which will unbalance it still more at this time is taking just that additional risk and therefore, if we should suddenly stop the purchase of silver and completely disrupt the whole price structure - but we are entirely responsible for doing it at this time. It would simply make it more chaotic than it is now. That, for me, is the best argument.

Foley: This isn't the time to do it.

- 22 -

- H.M.Jr: That, to me, is the best argument.
- White: If you don't put it quite so strong, but it is in that direction. I would agree.
- H.M.Jr: That, to me, is the only argument. Things are so terrifically upset and if we are responsible for this complete distortion, complete demonetization of silver all over the world by driving the price up - we have driven people into paper money and everything else and then suddenly for no reason whatsoever we suddenly withdraw this support, it is just adding to the terrific disturbance which is already there.
- White: And you have a very strong defense in the position you have taken in the past, by saying that one of the things which has been essential has been to stabilize the foreign price of silver and that you have done in line with what you have just said and if you couple that with Ed's suggestion that the thing can be well gone over at the Committee, I think that you have got a very excellent conservative and sound position and you don't have to make much fuss about it.
- H.M.Jr: Well, let's see. I feel so 'New Dealish' this morning after my Associated Gas & Electric letter that I feel I could face anything. Just take five minutes to get the dirt out of his ear. I didn't mean it the way it sounded.
- Foley: There is a lot in there.
- H.M.Jr: I didn't mean it that way. Let's take five minutes. Harry, do you want to get this stuff? We are going to leave here sharp at 20 minutes after.
- White: Not unless you would like me to indicate all the reasons I can think of in brief order.
- H.M.Jr: No, you can't do that. Let's give five minutes for this.

- 23 -

Bell: Have you got the bill, Harry?

White: No.

Foley: Dan, there isn't a bill. We understand it is pretty much the same.

H.M.Jr: Have you got it in your hands?

Foley: Yes.

H.M.Jr: Do you know what it is?

Foley: Yes.

H.M.Jr: All right, go on over with me. That is the easiest way.

Foley: O. K.

Jerry called me up and he was very, very angry. He thinks that to send a letter down to Senator Norris, even though we had to reply to Senator Norris - and he doesn't quarrel with that - that taxed the SEC in this vicious manner - he has tried to be a gentleman. He thinks that is one of the most unconscionable things he has heard of in all times and he thinks maybe on Treasury things he will begin to say what he thinks, since we are saying what we think about what the SEC does.

H.M.Jr: What do you mean, he will begin? Hasn't he?

Foley: Well, he talked about prices and British security holdings, how long it took us to get them over to him. He thought he might begin to tell that.

H.M.Jr: How long did it take us?

Foley: I don't know. He says two or three weeks and he knows we have them before he does. He said he was just taking that as an example.

H.M.Jr: Well, he was afraid to accept the lists after we offered them to him.

- 24 -

Foley: Well, he was being a little hysterical.

Ben called up and he wants a copy of the letter. May I send it to him?

H.M.Jr: Sure, it is public property.

Foley: I guess the head in the Times Herald, which I haven't seen, is the thing that got Jerry.

H.M.Jr: We knew that would happen and in the discussion with --

Foley: He said he was in town and he thought you should have cleared it with him. I mentioned that he didn't clear his reply with us and - well, he thought it was a terrible thing. I told him I thought the whole business was awful and he said he thought we shouldn't have gone to the papers and I said well, we are the last ones to go. Everybody else in town has been there and that is the reason we had to go.

H.M.Jr: Did you ask him why he lied to Arthur Krock, or did you think he was sufficiently nervous?

Foley: No, we got into an argument on that, too. He talked about half an hour.

H.M.Jr: Well, are you worried?

Foley: No, I am not worried. I am having a good time. I am perfectly satisfied. I told him we didn't have time to get him yesterday. It was a holiday and we decided we had to get this thing out quickly before the Judge announced the slate and we wanted to make it clear before the Judge had acted upon SEC's declination, just why we made the statement at the press conference.

H.M.Jr: What?

Foley: Why we had made our statement at the press conference and had stuck to it, and he tried to argue that we knew all the time that he wouldn't take it and I told him I didn't understand it that way.

- 25 -

H.M.Jr: And Bob Jackson didn't understand that, either.

Foley: But they hadn't actually determined whether or not if they had been asked by the Judge on behalf of the creditors to accept it, they would take it.

H.M.Jr: My nervous system couldn't stand submitting it to them yesterday, even if we had had time. It is all right.

Klotz: You will never go to heaven.

H.M.Jr: I said even if we had had time.

All right, we will leave here in 20 minutes. I think you had better go along, don't you think so?

Foley: Sure, I would like to go.

H.M.Jr: And Bell and White and Foley.

White: Are you through?

H.M.Jr: Yes, definitely.

Conference held at Secretary Hull's office, February 23, 1940,
at 10:30 A.M.

Present: Secretary Hull, Secretary Morgenthau,
Mr. D. W. Bell, Mr. Foley and Mr. White.

The conference was held at Secretary Morgenthau's request in order to confer on the silver question before the Senate Committee.

Secretary Morgenthau asked Secretary Hull what position the State Department proposed to take before the Senate Banking and Currency Committee on Senator Townsend's bill to repeal the existing powers to purchase foreign silver. Secretary Hull answered that Senator Townsend had telephoned him last week with respect to his position on the bill and that he had replied something along the following lines: That the general situation with respect to Treasury purchases of foreign silver raised no particular issue that the State Department felt was its primary interest, and that in view of the fact that purchases of foreign silver at the present low price for silver no longer raised significant questions of foreign policy he therefore believed that the Administration's position on the matter was a question rather for the President and the Secretary of the Treasury to determine. Secretary Hull stated to Senator Townsend that the price of silver had dropped very substantially and that he felt the same considerations were not at issue as was the case when the price paid for silver was higher. Secretary Hull stated that his present position with respect to the purchase of foreign silver remained the same as he had described over the telephone to Senator Townsend.

Secretary Morgenthau asked him whether there was anything that the State Department contemplated doing further on the matter and Secretary Hull said "No", that he had not intended to do anything unless he received further requests.

Secretary Morgenthau asked Secretary Hull that in view of the probable fact that Senator Townsend objected chiefly to purchases of silver from Mexico whether it might not be possible to satisfy him without calling for a change in the policy with respect to the total foreign silver by providing some arrangement not to purchase Mexican silver but to continue purchasing other foreign silver. Secretary Hull replied that he did not think that would be a wise thing to do in view of the fact that Mexico would then regard herself as being discriminated against because of her attitude on oil and would retaliate. The case was somewhat similar, he felt, to the situation of exports of scrap iron to Japan. The reason why he opposed an embargo on scrap iron to Japan was because it would not hurt them very much and would bring about a retaliation on the part of Japan.

Secretary Morgenthau asked Secretary Hull whether he thought it would be wise for Secretary Morgenthau to meet with a small group of the leading Senators to confer with them with respect to the best course to pursue on the silver matter. Secretary Hull thought it might be better at the beginning to get in touch with just a couple of them and suggested Senator Barkley and Senator Wagner. During the conference with them the question of talking to a larger group could be decided.

Secretary Hull said he wanted to speak of another matter and described his conversation with the British Ambassador in which he pointed out that they were antagonizing American opinion by their purchasing policy which sharply curtailed their purchases of agricultural products in this country, and he suggested that the British might well spend a couple of hundred million dollars for the purpose of buying agricultural products here in order to avoid the growing antagonism in the United States against British commercial policy.

E. V. F. L.

H. D. W.

COPY FOR SECRETARY

*Miss
Chamney*



DEPARTMENT OF STATE
WASHINGTON

February 26, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 121 of February 23, 1940, from the American Embassy, Rome, with regard to certain payments to Italian silk exporters.

Enclosure:

No. 121 of February 23
from Rome.

TO DIRECTOR OF INVESTIGATION
TECHNICAL SERVICES DIVISION
FEBRUARY 26 1940

FEB 26 1940

RECEIVED

HSM

GRAY

Rome

Dated February 23, 1940

Rec'd 3:20 p. m.

Secretary of State,
Washington.

RUSH

121, February 23, 7 p. m.

FOR TREASURY.

Department's telegram No. 38, February 15, 6 p. m.

Following ^{replies}/furnished orally by competent official

of Foreign Exchange Ministry.

One. The four lira payment formed part of the export premium abolished by decree law number 1757 of October 12th, 1939. Consequently such payment question has been abolished.

Two. "What the Ufficio Serico Italiano plans or has planned to pay for the silk year 1939-40 is beyond the official competence of the Government. The Government does not have any official knowledge of this amount".

Three. As regards changes in payments during present silk year "the question is not quite clear." If it relates to the second question above the answer is the same as two. If it relates to the first question

the

hsm -2- No. 121, February 23, 7 p. m., from Rome

the answer is: During the present silk year a change occurred, namely, the abolition of the "price adjustment including the four lire referred to in question one".

The evasive character of the answer to the second would seem to indicate clearly that the Italian authorities are unwilling to place themselves on record.

PHILLIPS

H PD

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February 23, 1940
8:55 a.m.

HMJr: Hello.
Operator: He hasn't reached his office yet.
HMJr: Well, as soon as he gets in I'd like to talk to him.
O: All right.
HMJr: Thank you.

9:20 a.m.

HMJr: Hello.
Henry
Wallace: Hello.
HMJr: Henry.....
W: Yes.
HMJr: How are you?
W: Just fine.
HMJr: Henry, could you see John Sullivan, Assistant
Secretary of the Treasury, on a political matter
sometime this morning?
W: Certainly.
HMJr: What time would be good for you?
W: (Brief pause) Would -- how would eleven o'clock suit?
HMJr: He'll be there.
W: Yeah.
HMJr: He'll be there.
W: That'll be fine.
HMJr: Something to do with the State of New Hampshire.
W: Yeah.

- 2 -

HMJr: All right.
W:at eleven o'clock.
HMJr: Thank you.
W: Goodbye.
HMJr: Goodbye.

February 23, 1940
11:15 a.m.

HMJr: Hello.

Operator: Senator Barkley is not in his office and they suggest that I try him at home.

HMJr: Yeah, I'm quite anxious to talk to him.

O: All right. The Senate is not in session today.

HMJr: Well, I'm quite anxious.

O: Right.

12:02 p.m.

Alben
Barkley: Hello, Henry.

HMJr: How are you?

B: All right,

HMJr: Alben.....

B: Yeah.

HMJr:in the newspapers I read that Senator Townsend has asked me to come up, or something like that. Now we've had nothing here in the Treasury from Townsend - at least I haven't, you see?

B: Um-hm.

HMJr: But in view of our conversation the other night when I was trying to keep your mind on silver and away from the Ambassadors.

B: Yeah. It's difficult to do.

HMJr: Yeah, but.....

B: But I -- you found -- I found you had the same trouble.

- 2 -

HMJr: (Laughs) Well, anyway -- where was I?

B: Well, I saw that article in the paper this morning.

HMJr: Yes.

B: I didn't know whether he had communicated with you or just blowing off in the press.

HMJr: I think so. Now, I have this suggestion to make if you think it's any good. I'd like to sit down with you and Wagner and Pittman and see where we're at.

B: Well, Wagner has gone to Florida.

HMJr: Oh.

B: And he won't be back for a week, and there will be no meeting next Tuesday.....

HMJr: I see.

B:of the Committee.

HMJr: Well.....

B: So we'll have time.

HMJr: Well..... -- what do you think the next move is?

B: Well, of course as soon as he thinks that I've had time enough to get any information from you and from Hull and the President about it, he's going to move to get that bill out again.

HMJr: Well, how about my meeting with you and Pittman?

B: Well, that's all right. I'd rather Bob were present as he's Chairman of the Committee but still it's not necessary.

HMJr: Well, may I leave it this way, I'm at your disposal any time.

B: All right.

- 3 -

HMJr: And when you're ready to send for me I'll come up at the time and place that you say.

B: All right.

HMJr: How's that?

B: That's fine.

HMJr: And.....

B: I don't think there will be anything -- I don't think there will be any meeting next week of the Committee.

HMJr: I've seen Cordell this morning so I -- I know where he stands.

B: What?

HMJr: I know where Cordell stands.

B: All right. All right, I'll let you know then, Henry.

HMJr: Righto.

B: All right.

HMJr: Thank you.

B: Goodbye.

February 23, 1940
3:02 p.m.

Ronald
Ransom:

How are you?

HMJr:

Hello, Ronald. How are you?

R:

Fine, thank you. I told you some time ago that we had asked our staff men to prepare some factual studies on the general banking situation and question of supervision which would enable us to have material available in case the Wagner Committee should begin hearings under that resolution.

HMJr:

Yeah.

R:

Personally, I sincerely hope that they are not going to start any such hearings in an election year.

HMJr:

Yeah.

R:

And I don't believe they are, but that work has been completed to a point now where it has gone to the Board for its consideration and to the Presidents of the Federal Reserve Banks and to the members of the Advisory Council.

HMJr:

Yeah.

R:

I wanted to ask you if I would have your permission in sending a copy of it to Walter Stewart asking him to treat it as confidential and asking him to read it and after he had read it asking him if he wouldn't discuss it with you and also with me so that we might both get the benefit of his point of view about it.

HMJr:

Surely.

R:

I felt quite sure you didn't want to burden yourself with reading a lot of factual material of that kind but of course after Walter has read it and is prepared to express some view about it, if you would like to have a copy, of course it's available to you.

HMJr:

Yes, I would very much.

R:

Well now, is that -- giving it that direction meet with your approval?

- 2 -

HMJr: Fine.

R: All right, sir, and I'll send it to him and then after he has digested it and is ready to talk about it if you want a copy of it, I'll see you get one.

HMJr: Righto.

R: All right.

HMJr: Thank you.

DUPLICATE

AMERICAN CONSULATE

Rangoon, Burma, February 24, 1940.

STRICTLY CONFIDENTIAL

Subject: War materials for China; statistics of imports at Rangoon passed for transit through Burma during the period from January 16 to January 31, 1940.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

Sir:

I have the honor to refer to information recently transmitted to the Department, and to forward herewith statistics of war materials for China imported at Rangoon and shipped in transit through Burma during the period from January 16 to January 31, 1940. These materials were valued at Rupees 1,452,868, or \$435,860 at the present exchange value of the rupee.

At the end of January 1940 the value of war materials re-exported from Rangoon to China by land totaled Rupees 110,288,585, or approximately \$38,393,068.

Respectfully yours,

Austin C. Brady
American Consul

In quintuplicate to the Department.

800
ACB

- 2 -

WAR MATERIALS FOR CHINA.

Statistics of imports at Rangoon inspected and passed for transit by the Burma Customs authorities during the period January 16-January 31, 1940.

Type of Material	Number pkgs.	Description and quantity	Country of origin	Value Rupees
<u>Airplanes</u>	4	Beechcraft, and parts	United States	299,235
<u>Aircraft parts, etc.</u>	4	Aerodrome appliances	" "	29,855
	1	Airplane instruments	" "	2,018
	15	Airplane parts	" "	139,423
<u>Machine-gun parts</u>	190	Ammunition boxes; 4948	Russia	24,740
	78	Cartridge belts; 12,212	"	12,212
	300	Tool boxes; 3000	"	30,000
	147	Gun barrels and accessories; 2205 sets	"	110,250
<u>Pistols</u>	Part of	31 Mauser; 50 pieces	Belgium	2,955
	" "	60 7.63 mm.; 1000	"	50,652
<u>Cartridges</u>	" "	31 For Mauser pistols; 150,000 rounds	"	5,454
	" "	60 For 7.63 mm. pistols; 200,000 rounds	"	11,616
		600 7.9 mm.; 12,000,000	"	729,389
		1 Listed under this heading as "Arms accessories, not otherwise specified"	United States	5,069
				<u>1,452,868</u>
		Total		

WAR MATERIALS FOR CHINA.

Imports at Rangoon inspected and passed for transit during the period from January 16 to January 31, 1940

RECAPITULATIONVALUES BY COUNTRIES OF ORIGIN

<u>Country of origin</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Belgium	800,066	240,019
2. United States	475,600	142,680
3. Russia	<u>177,202</u>	<u>53,161</u>
Total	1,452,868	435,860

VALUES BY TYPES OF MATERIAL

<u>Type of Material</u>	<u>Unit</u>	<u>Quantity</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Cartridges	No.	12,350,000	751,528	225,458
2. Airplanes	"	---	299,235	89,770
3. Machine-gun parts	"	22,360	177,202	53,161
4. Aircraft parts and aerodrome appliances	-	---	171,296	51,389
5. Pistols	"	1,050	<u>53,607</u>	<u>16,082</u>
Total			1,452,868	435,860

Hornbeck's
copy
O M

228

O

This is Mr. Hornbeck's un-
official opinion.

UNOFFICIAL
CONFIDENTIAL

February 24, 1940.

Reflections on the Far Eastern Situation
and Desiderata of American Policy.

Fundamental considerations:

The Japanese have been and are proceeding on a "wrong" course and the obstacles to their going further and "getting anywhere" on that course are increasing.

The United States cannot join them on that course, nor can it give assent to the methods and objectives which it involves.

Japan's acts are in contravention of United States' rights, destructive of American interests, antithetical to American principles and policies, and contributory toward world-wide conditions of lawlessness, disorder and insecurity. It is hoped that as time goes on it will become apparent to them that there is a "wrong" course and that they must get on to another and better course.

It is possible that continuance of Chinese resistance plus continuance of various forms of resistance which have been and are being and will be brought to bear by other powers, including the United States, will bring the Japanese military to a realization of the hopelessness of their continuing on their past and present course, and will cause them to alter first their methods and finally their objectives.

This

- 2 -

This will take time.

It can take place without there developing a military conflict between the United States and Japan.

Whether it does or does not so ^{develop} will depend upon
(1) the course pursued by Japanese authorities; (2) the course pursued by the United States; and (3) the courses pursued by other powers, especially Great Britain, France and the Soviet Union.

It is estimated:

That "tension" between the United States and Japan is not at present extreme;

That a rapprochement between Japan and Russia is conceivable, possible, not probable, and not potential of extensive or disastrous material effects;

That a move by Japan southward, toward and possibly into the Dutch East Indies, is conceivable, possible, not imminently likely, and not for some time in the future probable;

That neither the Chinese nor the Japanese are as yet in a position or in a frame of mind wherein a "settlement" by negotiation is possible; neither Government could at this time agree to what would be acceptable to the other;

That the present situation of semi-exhaustion on the part of both countries, with approximation of stalemate, is susceptible of being radically affected for better or for worse by action which is possible on the part of outside powers;

That in the light of present conditions in Europe, Japan is in a better position than is China to obtain, by processes of political bargaining, material and/or diplomatically sympathetic support from one or more of the major European powers;

That

That the question whether the "time factor" is or is not on the side of one or the other of the two contending countries depends to considerable extent on the manner in which and the degree to which other countries take action, positive or negative, toward (or having the effect of) influencing the situation;

That the British and the French Governments, in the light of their current weakness and vulnerability in the Far East and their war needs, are inclined toward procedures of "appeasing" Japan;

That there is need for exercise by the United States of positive influence, as bearing on the Far Eastern situation, in relations with Japan, with China, and with Great Britain and France.

Objectives of American policy:

The ultimate objectives of American policy in relation to the Far East are the same as those of American policy in relation to other areas of the world.

These objectives are the protection and the promotion of the lawful rights and legitimate interests of the United States.

The people and the Government of the United States desire to have normal and healthy relationships with all countries in all parts of the world. They desire that orderly processes prevail in international relations;

They desire to carry on relations with the countries of the Far East as elsewhere on the basis of the principles of general equality of opportunity in terms of treatment (non-discriminatory treatment), under conditions of fair play and of fair dealing between and among nations.

They desire that sovereignties everywhere be respected -- and therefore that China's sovereignty be respected.

They desire that aggression among nations cease -- and therefore that Japan's aggression cease.

They desire that progress be made by other countries by peaceful processes toward conditions of peace, justice, stability, prosperity and security -- and therefore that such progress be made by every country in the Far East.

It is considered desirable:

That the United States continue steadfastly on its traditional course;

That the American Government give no assent to acts or courses of action in impairment of the principles which this country has consistently advocated and to which it is committed;

That the American Government continue to ask for full respect for rules of international law and provisions of treaties (including provisions for alteration by established and generally recognized orderly processes) in the Far East;

That the United States in no way lend itself to processes of compromise (any "Munich" agreement) in or with regard to the Far East;

That the United States refrain from any "bargaining" in connection with political matters in the Far East or in the relations of this country with Far Eastern countries;

That the United States "keep open" the subject of entering into any new agreement or agreements with Japan;

That the United States refrain from laying down any specified "conditions" as requirements to be met by Japan;

That the United States quietly and by processes which are legitimate exert its influence and make material contribution toward encouraging the efforts of the Chinese to maintain China's sovereignty and independence;

That

- 7 -

That as Japanese authorities continue to disregard American rights and to impair or to destroy American interests, by processes of political (including military) pressure and economic discrimination, the United States continue and extend its procedures of pressure -- warranted by considerations of morality and by rules of international law -- which, having begun with drying up of credits, application of "moral embargoes", etc., may be extended to discontinuance of most-favored-nation treatment of imports, imposition of discriminatory duties upon selected imports, and, if necessary, ultimately, carefully selected and skillfully imposed embargoes on some types of exports;

That the United States avoid courses which, if pursued, would give ~~warrant~~^{color} for the contention of "have-not" nations that they can achieve security only through conquest;

That the United States be prepared to consider proposals, when and as appropriately made, for readjustment of its and other countries' common or reciprocal "rights" and "interests";

That in all these matters the United States proceed cautiously, with thorough study of facts and developments from moment to moment, and with most careful weighing of possible and probable effects, both immediate and ultimate;

That

- 8 -

That in this procedure careful consideration be given constantly to the interrelationship between developments and possible developments in the European field and those in the Far Eastern field;

That the major portion of the American fleet be kept in the Pacific and be based in large part on Pearl Harbor;

That the United States Government use its influence toward causing other interested powers to refrain from action the effect of which would be to prejudice the situation in favor of any nation whose courses of action violate the principles to which this country is committed and unlawfully impair this country's legitimate rights and interests.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

237

INTER-OFFICE COMMUNICATION

DATE February 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:50 noon the Secretary telephoned me from his house in regard to an article which had appeared in the New York Herald Tribune of this morning, in regard to the purchase plans of the Allies, which contained a criticism of the Treasury's position on taxes. At the Secretary's request, I telephoned Mr. Pinsent at once and asked him to let Messrs. Purvis and Bloch-Lainé know immediately, certainly before they came to see the Secretary on Monday morning at 10:30, that he considered the article most unfortunate. The Secretary told me confidentially that Mr. Schwarz had heard that the Havas reporter had obtained the story, or at least the unhappy part thereof, from a junior member of the British Mission. Pinsent told me that he would speak to Chalkley (the Commercial Counselor) in whose field, I believe he said, this would come. While he was still at the phone, he called to Chalkley, who apparently was with him, to wait as he desired to discuss something with him.



JI

PLAIN

London

Dated February 24, 1940

Rec'd 7:30 a.m.

Secretary of State

Washington

450, February 24.

FOR TREASURY FROM BUTTERWORTH.

The method worked out by the British and Indian Governments for rectifying Britain's adverse balance of payments to India under war conditions, reported in my 443 of February 23, should prove efficacious inasmuch as rupee securities normally stand above the relative prices of comparable sterling securities. The need for action is indicated by the fact that since the beginning of the war the sterling assets of the Reserve Bank of India have shown an expansion of about £50,000,000. The recent rise in the Indian net visible trade balance, which is in measure reflected in the Reserve Bank figure, is no less noteworthy. For instance the merchandise surplus which was a negligible amount January last year totaled RS.805 Lakhs. Likewise gold shipments during

-2-#450, February 24, from London

during January totaled the same amount, RS.805 lakhs, which was the largest gold shipment on private account from India since the RS.1010 lakhs for February 1934. Furthermore, remittances of funds last month amounted to RS.1478 lakhs making a total of no less than RS.7430 lakhs for the current fiscal year, which is equivalent to more than £55,000,000.

This step has evoked surprisingly little comment in the press but the following excerpt from the FINANCIAL TIMES may be of interest:

"India in the past has been forced to look to this country for a great deal of its borrowed money. Its needs have been considerable, for it has fallen to the lot of the state to finance a great deal of the progress made by public utility services and in other directions. As the total of savings grows and an increasingly efficient organization enables more money to be obtained locally without the difficulties engendered by such attempts in earlier years, there is a very natural desire to enlarge the home market and make use of its advantages. A loan obtained overseas needs exports to pay for its service. In the language of economics the resultant diminution
of

-3-#450, February 24, from London

of the real wealth of the borrowing nation is avoided if the external liability can be replaced by an internal one. Such an advantage will accrue to India in proportion as the present conversion offer is utilized."

JOHNSON

RR

TREASURY DEPARTMENT

241

INTER-OFFICE COMMUNICATION

DATE February 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned me at 11 o'clock this forenoon to give his second daily report on sale of vested securities. There were no such sales on February 23. Pinsent reminded me that the data which he would be giving me would relate only to sales of vested securities, and would not include sales of non-vested securities of which private holders are still disposing under authority from the British Government. I reminded Pinsent that our original thought last Autumn had been that the British Government would take over all of the United States dollar securities held by its nationals at one move, and that subsequent sales would, therefore, be only those by the Government itself. Since the arrangement is now being carried out on installments, the Treasury would need to have information both as to daily sales of non-vested, as well as of vested, securities to enable it to know just what is being done on the American market in the way of disposing of the securities. I told Pinsent that we were still getting estimates from New York as to actual sales of British and other securities and that such estimates would include all sales, whether of vested or non-vested securities. As explained yesterday, the figures which Pinsent gave on February 22 were for transactions as actually contracted, and not for sales for which payment is already received. I told Pinsent that Mr. Gifford, in order to conduct his sales on the New York market, must undoubtedly be receiving daily reports from London as to what authorization is given there for the private sale of non-vested securities. Pinsent promised to write Gifford at once on this point and to endeavor to procure such data as Gifford may receive for further transmission to this Treasury. I suggested that all pertinent data be made available to us as of February 22, and be provided regularly hereafter. When once it is seen how much information is provided, a table will be arranged to record the daily reports.



TREASURY DEPARTMENT

242

INTER-OFFICE COMMUNICATION

DATE February 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

There was a very small market in foreign exchange today. Sterling opened at 3.95-5/8 and moved in a narrow range to close at 3.95-3/8.

Sales of spot sterling by the six reporting banks totaled £222,000, from the following sources:

By commercial concerns.....	£ 33,000
By foreign banks (Europe, South America and Far East).....	£189,000
Total	£222,000

Purchases of spot sterling amounted to £241,000, as indicated below:

By commercial concerns.....	£166,000
By foreign banks (Far East and Europe).....	£ 75,000
Total	£241,000

The following reporting banks sold cotton bills totaling £27,000 to the British Control on the basis of the official rate of 4.02-1/2:

£16,000 by the Guaranty Trust Company
£11,000 by the National City Bank
£27,000 Total

The other important currencies closed as follows:

French francs	.0224-1/8
Guilders	.5317-1/2
Swiss francs	.2242-1/2
Belgas	.1690
Canadian dollars	13-1/2% discount

There were no gold transactions consummated by us today.

No new engagements of gold were reported by the Federal Reserve Bank of New York or the State Department.

The Dow Jones Ticker carried a news item from Stockholm stating that Sweden went off the gold standard today, and that the Government agreed to establish foreign exchange control. The bill, tabled in Parliament this afternoon, will be debated and passed tomorrow. It will then become effective Monday. Dow Jones also stated that previous restrictions on gold transactions were in force against public business, but special dispensation was granted to the Central Bank. That dispensation was revoked today.

The U. S. equivalent of the Bombay silver price was 39.77¢, as compared to 39.60¢ yesterday.

NAVAL MESSAGE
(NAVY DEPARTMENT)

243

From THE PRESIDENT	ACTION	To THE SECRETARY TREASURY	Write A.C.K. after address requiring acknowledgment.
Released by X-CWM <small>(Signature)</small>			
Date 24 FEB 1940	INFORMATION	To	
NITE to XXXX			
ROUTINE to			
PRIORITY to			

WHITE 36

IT IS DIFFICULT WITHOUT ACCESS TO ALL FIGURES TO COME
TO FINAL CONCLUSION AT THIS DISTANCE X THERE IS HOWEVER
NOTHING SACRED ABOUT THE IDES OF MARCH X AND REFUNDING
CAN BE MADE AT ANY TIME X WILL TAKE UP THE QUESTION
WITH YOU ON MARCH THIRD X SIGNED ROOSEVELT

CONFIDENTIAL

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil

DATE: February 24, 1940

Reference is made to telegram No. 70 of February 23 from the Embassy.

The Department had explained to the Council the background of the negotiations, and this morning it was again explained to the Council.

The Department's suggestions for debt payments would not necessitate a larger total debt outlay by the Government of Brazil; more equitable distribution of the payments in prospect on securities of Grades I, II and II is the idea in back of the Department's suggestions. The Department is not seeking to add to Aranha's difficulties by asking this of the Brazilian Government; it is, in a sense, making an effort to assure that in the United States the debt proposal would receive a satisfactory reception, thus bringing about the satisfactory results Aranha seeks through his very-much-appreciated effort.

The suggestion occurs to the Department that perhaps the comparatively responsive attitude of the European bondholders council group is due to the distribution between Grades I, II and II as contemplated in the Brazilian Government's latest proposal. The Foreign Bondholders Protective Council feels that the bondholders it represents are, correspondingly, at a disadvantage.

The

- 2 -

The following is for your own information and is strictly confidential:

Reference - your telegram No. 70, the last paragraph. The underlying concern entertained in the Department is touched upon in this paragraph. The Department knew that there is a possibility attempts would be made by the British Government to negotiate a clearing agreement with the Brazilian Government on the basis of larger purchases from Brazil for war needs. The Department might have to discuss with the British Government such a clearing agreement between Great Britain and Brazil. However, the reaction in this country would be critical and severe if it should develop that such an agreement was tied in with a plan for payment of debts that gave the holders of sterling bonds more favorable comparative treatment than the holders of dollar bonds were accorded. The feeling in this country would be that Brazil was ignoring the commercial advantages possessed in the American market, as well as the fact that more exchange than is allocated here is created by American purchases from Brazil. There is not much doubt that a series of developments of this nature would create the impression that in the face of diplomatic maneuvers of another kind, the general line of our good-neighbor policy was not effective.

HULL.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~246~~ 246

DATE February 24, 1940

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Colombian debt.

The State Department informs me that the difficulty between Turbay and the Council, due to the public statement of the Council relative to the temporary arrangement, referred to in my memorandum of February 21, has been satisfactorily removed. Yesterday White and Turbay had a joint interview with U-P and A-P representatives, the primary objective being publicity in Latin America rather than here, to remedy the situation. Turbay is reported to be satisfied.

J.P.C.H

PARAPHRASE OF TELEGRAM RECEIVED

247

FROM: American Embassy, Rio de Janeiro

DATE: February 24, 1940, 1 p.m.

NO.: 71

Refer to Embassy's no. 70 of February 23, 1940, 1 p.m.

According to Aranha, he and the Finance Minister spent a great deal of time in study on the debt situation last night in the hope of doing the best for us that they can. A recommendation to President Vargas which they are considering is that Grade III be increased to fifty percent of the last year of the Aranha Plan for every year in the present plan under consideration. (According to their calculations, the payments to Grade III will be increased over the 4 years by \$1,776,000. They also estimate that, as compared with the original plan of the Finance Minister, the present plan will reduce the amounts which are devoted to amortization of Grade I and Grade II by \$3,600,000 and will increase the total amount devoted to interest in all the grades by \$5,400,000.) Also they are considering the possibility of making a private commitment with us for the amortization of dollar bonds by buying in the open market in the amount of \$10,000,000 over the 4 years, if the Department so desires. President Vargas, they believe, would authorize such an amount for the amortization of dollar bonds by buying in the open market; however, authorization for them to use this amount for any other debt purposes will definitely be refused by

the

-2-

the President.

It is contended by the two Ministers that this is the most they can do for us at this time. The remainder of the Aranha plan of February 16 would not be changed.

This afternoon the two Ministers are to talk with the President on the debt problem. I was told by Aranha that the difficulties that have been encountered will not be disclosed to President Vargas in view of the fact that they are afraid he will instruct them to drop the whole business and wait until after the war to take it up again.

CAFFERY

EA:MSG

PARAPHRASE OF TELEGRAM RECEIVED

249

FROM: American Embassy, Rio de Janeiro

DATE: February 26, 1940, 8 p.m.

NO.: 72

Refer to your no. 38 of February 24, 1940, noon.

It is respectfully submitted that it is my desire to report that Aranha is acting very critical. He reminds me, emphatically, that early in December I stated to him the following:

The comparative position of the dollar issues, including state and municipal issues, should be recognized as they were in the original Aranha plan which was accepted as being relatively fair as between the holders of different issues.

(This had been quoted to him from your no. 235 of the 12th of December, 1939, 4 p.m.) I carried out the instructions in your no. 13 of January 18, noon, which were in substance that I should indicate to Aranha that an offer which was based on schedules for the last year of the Aranha plan would be a step forward, around the middle of January. A few days later I carried out the instructions in your no. 14 of January 20, 4 p.m., which stated that it was greatly hoped that the Finance Minister will use instead the fourth year of the Aranha plan as the basis of his offer, and that the fourth year of the Aranha plan yields much better percentages to the holders of Grades III to VIII.

A few days later "Grade I fifty percent, Grade III thirty percent" was suggested by the Council itself in
Department's

-2-

Department's 18 of January 25, 5 p.m. Furthermore, on February 17, I carried out the instructions in telegram no. 33 of February 17, 3 p.m., which were to the effect that the grading relationship in the last year of the Aranha plan seems to provide a fairly equitable and reasonable distribution as among all the parties which are concerned; therefore, insofar as concerns distribution among grades, the Department would not interpose any objection to any proposal which is based as regards dollar bonds on the last year of the plan of Aranha.

It was also stated by Aranha that even White himself had told Aranha that he considered the original schedules of the Aranha plan to be fair. Aranha added that now that he has done practically everything we wanted, we are asking him to abandon the Aranha plan so that still more dollars can be obtained by us.

CAFFERY

EA:MSG

COPY FOR SECRETARY

MISS
Thurmond



DEPARTMENT OF STATE
WASHINGTON

February 26, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 96 dated February 25, 1940, from the American Legation, Stockholm, with regard to the Swedish Foreign Exchange Law.

TO THE SECRETARY OF STATE
TECHNICAL ASSISTANT
OFFICE OF THE SECRETARY

630 FEB 26 11 22

TECHNICAL ASSISTANT
OFFICE OF THE SECRETARY

Enclosure:

No. 96 of February 25
from Stockholm.

RFP

PLAIN

Stockholm

Dated February 25, 1940

Rec'd 11:55 p.m.

Secretary of State

Washington

96, Twenty-fifth.

Riksdag called unexpectedly today. Has authorized Government to put into effect Foreign Exchange Law outlined in Legations despatch 254, June 15, 1939. Riksbank Governor has just supplied Legation with following outline of Regulations which he requests be communicated immediately to Cochran, Treasury Department. Please also inform Commerce "Foreign Exchange Regulations introduced in Sweden as from February 25. Only dealers authorized by Riksbank may buy or sell foreign exchange against Swedish currency. Most Swedish Commercial Banks are authorized dealers. Exchange available only for specified purposes such as payment of imported goods, freights, insurance premiums, commissions, salaries, outstanding financial contracts, travelling expenses, etc. Export of bank notes, checks, drafts and other bills of exchange and securities prohibited except with permission. Import of bank notes, checks and bills expressed in Swedish currency also prohibited. Import of securities

RFP -2- #96, February 25, from Stockholm

securities only through Riksbank or authorized bank. Sales of imported securities subject to Regulations. Swedish Kronor balances owned by Swedish residents may not be transferred to non-resident accounts without permission. Kronor balances owned by non-residents freely transferable to other non-residents and to residents. Purchases of foreign exchange with non-residents Kronor balances subject to general regulations. Application for such purchases through the bank where balance is held. The exchange regulations do not affect existing clearing agreements. The gold export prohibition now existing will be made general as from tomorrow."

STERLING

RP

HSM

GRAY

Paris

Dated February 26, 1940

Rec'd 2:35 p. m.

Secretary of State,
Washington.

259, February 26, 6 p. m.

FOR THE TREASURY FROM MATTHEWS.

A brief communique was given out following Saturday's Cabinet meeting to the effect that it had been devoted to a study of "urgent and coordinated economic measures" required by the situation and that the latter would be embodied in a series of decrees to be approved at the next Cabinet meeting (presumably Wednesday).

An arrete appeared in yesterday's Journal Officiel introducing certain changes in the text of Article 6 B of the arrete of November 30 defining prohibited or authorized operations in foreign exchange (my telegram No. 2882 of December 1, 6 p. m., and despatches numbers 5386 of December 6 and 5467 of December 15). (END SECTION ONE).

MURPHY

CSB

jt

GRAY

PARIS

Dated February 26, 1940

Rec'd 3:47 p.m.

Secretary of State,
Washington.

259, February 26, 6 p.m. (SECTION TWO)

Hereafter while "persons considered as French" (i.e. residents) are required to turn over to the foreign exchange office within a time limit of one month from the date of collection, the foreign exchange received from the cashing of coupons or dividends on foreign securities, such dividend checks or coupons may in the future be cashed any time within a limit of three months from the date on which they are declared or fall due. Previously the time limit for the surrender of such foreign exchange was two months from the date on which the dividends were declared or the coupons fell due. This additional month's period of grace is presumably due to unavoidable postal delays arising from overseas transportation difficulties.

MURPHY

CSB

JT

GRAY

PARIS

Dated February 26, 1940

Rec'd 3:45 p.m.

Secretary of State,
Washington.

259, February 26, 6 p.m. (SECTION THREE)

By the text of a decree published in the JOURNAL OFFICIAL of February 24, a 60,000,000 franc fund is to be set up to equalize domestic and import prices of nitrate and phosphate fertilizers - a measure similar to those adopted for certain other raw materials.

Another decree appearing in the same issue of the JOURNAL OFFICIAL postpones for an additional month the final date for filing direct tax returns (heretofore the dead-line was March 31 for businessmen and industrialists whose accounting year ended in December 1939 and March one for all others). Furthermore men serving with the armed forces are not required to file a return before June 30.

MURPHY

WWC

REB

GRAY

Paris

Dated February 26, 1940

Rec'd 2:50 p. m.

Secretary of State,
Washington.

259, February 26, 6 p. m. (SECTION FOUR)

A third decree requires all persons holding stocks of cotton thread not prepared for retail sale to submit a declaration of their holdings within fifteen days.

The securities market today was again listless and inactive but the undertone was firm. Most rent issues advanced fractionally. Official exchange rates remained unchanged.

The news of Swedish exchange control has occasioned little surprise here.

Six more operating in the black market were arrested Saturday.

(END OF MESSAGE)

MURPHY

CSB

TREASURY DEPARTMENT
WASHINGTON

February 26, 1940.

MEMORANDUM FOR THE SECRETARY.

The records received from the Naval Intelligence semi-monthly covering transactions of Amtorg show the following payments to J. S. Bache and Company:

Week ending	11/13/39	\$5,200.00	
" "	11/27/39	5,716.80	
" "	11/27/39	257,042.84	
" "	11/27/39	17,190.77	
" "	12/2/39	40,135.23	
" "	12/2/39	27,521.21	
" "	12/2/39	5,122.10	
" "	12/2/39	7,137.90	
" "	12/2/39	27,590.19	
" "	12/16/39	6,848.80	(copper)*
" "	12/16/39	1,932.00	(")
" "	12/16/39	34,244.00	(")
" "	12/16/39	13,697.00	
" "	12/16/39	34,244.00	
" "	12/16/39	142,788.00	
" "	12/16/39	201,112.80	
" "	12/23/39	323,988.00	
" "	12/23/39	902.87	
" "	12/23/39	98,175.84	
" "	12/23/39	34,356.00	
" "	12/30/39	13,608.00	
" "	1/6/40	11.19	
" "	1/6/40	473.52	
" "	1/20/40	6,714.54	
Total		\$1,305,753.60	

* Copper as indicated hereon appears after the three payments of December 16, 1939.

MEMORANDUM FOR THE SECRETARY:

FEBRUARY 26th 1940.

Re: Shipping Situation.

The volume of export freight moving through the Port of New York has not materially changed since the previous week.

The Association of American Railroads report that the number of cars they are lightering daily show a slight increase. It is interesting to note that the daily average of between 700 and 800 cars compares with the peak movement in the World War of 1250 cars per day.

The railroad lighters on demurrage number 116, practically the same as the week before.

The grain in elevators, barges and railroad cars at New York is slightly under 4,000,000 bushels. The railroads report that the grain situation at Philadelphia and Baltimore is liquid, the large accumulation of cars having been practically cleaned up. The parcel rate on grain to Antwerp reached \$1.00, after which the demand subsided sharply. The regular liners operating from the River Plate to North America have booked large quantities of grain which is said to be intended for transshipment from New York to United Kingdom and Continental Europe.

The requisitioning of tonnage by the Scandinavian governments is creating a tight ship situation and the net form and time charter rates are strong and pointing toward still higher levels.

A vessel was fixed for coal from Hampton Roads to Italy at \$17.50 per ton against the last fixture in that trade at \$10.00.

-2-

The latest confirmation available indicates that the exportation of Hams, Bacon and Lard from the United States to United Kingdom will be completely shut off until such time as Canada is unable to supply sufficient quantities.

Basil Harris.

GROUP MEETING

February 26, 1940.
9:30 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. White
Mr. Thompson
Mr. Cotton
Mr. Cochran
Mr. Graves
Mr. Haas
Mr. Viner
Mr. Foley
Mr. Schwarz
Mrs Klotz

H.M.Jr: Herbert?

Gaston: Chick just told me that he heard from Steve Gibbons that Charlie West was threatened with an indictment. I guess I had better get hold of Charlie and talk to him about it.

H.M.Jr: Say it again, will you?

Gaston: Steve Gibbons reported to Chick that Charlie West was threatened with an indictment in regard to some transactions in regard to this coal business out in Ohio. Perhaps I had better get hold of West and see if he knows anything about it.

H.M.Jr: Is Ohio safe?

Gaston: For the present.

H.M.Jr: Well, just remember that most of Steve Gibbons' rumors were nine times out of ten wrong, but, for the record, find out.

All right, Herbert, what other good news have you got?

Gaston: I don't believe I have anything more.

H.M.Jr: Ed? Are you still gloating?

Foley: Still afloat.

- 2 -

H.M.Jr: I didn't say afloat, I said a-gloat.

Foley: Winthrop Aldrich has been called by SEC before the TNEC life insurance investigation today. Gerry Gesell called up on Saturday and said that Aldrich will probably be on all day and he will probably address himself to the question of excess reserves and he may attack some of the Administration monetary policies. I thought maybe you might want to know that and perhaps designate somebody to go down today and sit in and ask Aldrich some questions in case he got off on gold and silver.

H.M.Jr: I will designate Mr. Eccles. Did you see Eccles' letter to the Workers Alliance?

Foley: No.

H.M.Jr: He knows more about these things than anybody else in the world, so I think he would be - why worry about Winthrop Aldrich when Eccles can question the President's budget message and working accounts and everything else? What legal authority do we have to spend the gold? He says we don't have any authority and all the rest of it. So I suggest the TNEC have Mr. Eccles come over. He has all the answers. I wouldn't bother. Let them go along. Who would normally - haven't you got some boys?

Foley: Yes, I have. I thought maybe you might want Harry to go down today.

H.M.Jr: Well, Harry wouldn't answer him in public.

Foley: No, but he could tell our boys the questions to ask.

H.M.Jr: Have we done that before?

Foley: No, but this is the first time, I guess, we have been called on by another agency to prepare to defend ourselves. He may not do it, Mr. Secretary. It is just in the event that he does.

H.M.Jr: What do you think, Dan?

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- Bell: I think he will do as Ed says. I was told Saturday night that that was the trend his talk would take, but I question whether the Treasury wants to get into this argument. I don't know what necessity there is for the Treasury to answer these people that appear before the TNEC and I think you magnify Aldrich's statement and it seems to me it is clearly political.
- Foley: I think it is political, too, and that is why I think we ought to have somebody there that can ask him some questions, intelligent questions, that will put him on the defensive.
- Bell: Is it your idea just to have someone there to hand the questions to members of the Committee?
- Foley: Either that or ask the questions themselves, either way. It doesn't make any difference.
- Bell: Are they permitted to do that?
- Foley: Yes.
- Bell: I see no objection to having Harry go down and slipping the questions to members of the Committee. It seems to me it would be better to have it coming from the Committee.
- H.M.Jr: O. K.
- White: You say it will take all day?
- Foley: I don't know, Harry. He may be on all day. The hearings start about a quarter after 10:00 and they usually continue from 2:00 until 4:00 in the afternoon.
- White: Do you want me to go up?
- H.M.Jr: I guess so. What else?
- Cochran: When this silver question came up during your absence, we found we didn't have all of the detailed data in regard to purchases here

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that you might require, so we asked New York, the Federal Reserve Bank, to prepare everything they could from their records and one of their men came down this morning and gave us the summary and the supporting sheets will be here within two days, so if anyone needs those figures, I have them.

H.M.Jr: Doctor Viner? I hear you are here for two days.

Viner: Yes.

H.M.Jr: Will I have the pleasure of seeing you?

Viner: Yes.

H.M.Jr: Give Mr. Viner 3:15.

Chick?

Schwarz: Nothing.

H.M.Jr: I gave Bell this clipping from the New York Times on this correspondence between Eccles and Glasser. What we are thinking of doing is writing a letter to the Board of the Federal Reserve and asking them first for the complete correspondence and second, insist on whether it is the Board's opinion and depending upon whether it is the Board's opinion or Mr. Eccles' opinion, we will proceed from there.

Schwarz: That is fine.

H.M.Jr: He doesn't do this so often that - well, this is just my personal opinion. He says in previous Administrations we never carried balances of more than 250 to 300 million. Well, is everything else in the previous Administration okay? And the President specifically says in his budget message what he thinks that the balances should be. The thing that surprises me is that no paper has got it but the Times.

Norman, I think that this is all right, but inasmuch as the 9:30 group is here, I think they had better pass on it.

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Thompson: Want me to read it to them?

H.M.Jr: I think you had better.

Thompson: This is a memorandum for the Secretary.

"I have observed for some time a need in the Division of Monetary Research for the services of an Administrative Assistant to relieve the Director of that Division of the burdensome details of the administrative work of his office. I am sure that Mr. White would welcome such an arrangement in order that he might use to advantage the time thus saved to him for his study of monetary and economic problems.

"We have in our service a lady who worked as an economist in the Farm Credit Administration before her transfer to the Treasury five years ago when she was appointed in the Division of Research and Statistics as a Senior Economist at \$5,000 per annum. Her name is Miss Edna Lonigan. More recently Miss Lonigan has helped to organize Washington's Self-Help Exchange and she has become an expert of the first order in Self-Help. In addition, Miss Lonigan is an expert on problems of travel and leave. She has great experience in both and would be able to attend to all such matters in the Monetary Research Division. She is adept in acquiring and arranging all matters relating to office space and equipment.

"I am confident that with Miss Lonigan's demonstrated matured judgment she could not only supervise the work of the employees outside of the purely professional persons but lend assistance to this office in the matter of having carried out highly technical work assignments.

"I earnestly recommend, therefore, your approval of the transfer of Miss Lonigan to the Division of Monetary Research as an Administrative Assistant with full authority to act on all administrative matters."

This is my recommendation to you, Mr. Secretary.

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- White: Mr. Secretary, she is such a valuable person I wouldn't want to deprive the Treasury of her services.
- Haas: Not at all.
- White: I think she ought to be Administrative Assistant to Mr. Bell.
- Bell: I don't have any need for one.
- White: Danny, I wouldn't want to cramp her style by putting her in a small division like mine. I think the three "E's" cover the waterfront. I think they ought to --
- H.M.Jr: You did it very well, Norman.
- White: I take it that will be laid on the table, or under the table.
- H.M.Jr: We will take a vote. All those in favor --
- White: I have got too many friends here.
- H.M.Jr: All in favor of Miss Lonigan being made Administrative Assistant to Mr. White, say "aye."
- (The motion was unanimously carried.)
- You will complain, will you? That settles that argument. Have you got anything else?
- White: Well, don't give the impression I complained, Mr. Secretary. I didn't mean I complained and wanted an Administrative Assistant.
- H.M.Jr: You remarked you had no Administrative Assistant and had to do it all yourself.
- White: That was in reference to a very specific job, why our records weren't in such shape to give you something quickly.
- H.M.Jr: I thought this would facilitate it.
- White: I just wanted to make that clear.

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H.M.Jr: It wasn't a complaint?

White: No, no.

H.M.Jr: Then all right, we won't do it.

White: That is the answer to the complaint, that it was not a complaint.

Schwarz: You are sure now?

H.M.Jr: I thought it was an answer to a maiden's prayer. Think that one over, Harry. You can give me a better comeback than that.

All right, George.

Oh, do you want to go ahead, Harry?

White: I have here the notation that you wanted me to make with respect to the countervailing duties on entries of silk products from Italy. I found there is a little story behind that if you want to hear it.

H.M.Jr: Just that Mr. Hull called me up Saturday and said if there was anything in countervailing duties for Italy, please do not do it while Mr. Welles is in Italy.

White: Well, there is something on the fire.

H.M.Jr: Well, he is only going to be there two or three days.

White: They tried, apparently, to get something through very quickly so they could settle it before he was there, but they didn't let us know. When it came to us we found something was wrong with it, so held it up.

H.M.Jr: Wait until he gets to Berlin, then do it.

White: But had we known he was going over, it might have - no, I don't think we could have done anything else.

There is a memorandum here on Soviet gold production that I think you would be interested

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in the summary of (February 26).

H.M.Jr: I will take your Russian statistics.

White: Then there is a memorandum here on the first five months - trade for the first five months of the war, a summary. (February 26)

We have here a compilation of the replies from those Latin American governments that have replied on a questionnaire which was sent to them about two months ago. I think you will find it quite interesting, the summary of the statement (February 26).

H.M.Jr: Give it all to Mrs. Klotz, will you?

White: There is a letter which Danny Bell turned over to me for drafting an answer from Berle re- (Feb. 20) questing the Treasury's opinion with respect to the Government's attitude on this Inter-American Bank. I take it that there has been no change. You will see the letter, of course, but I didn't know if you wanted anything further now.

We received a telegram, among others, from France that you may have noticed, that France is beginning to adopt the same method that Germany did in attempting to promote exports by use of multiple currency devices, and so on. (February 20) We have been watching and the first impression we get will have to fall under the countervailing cases, if and when we do get such word. I will leave that sale of molybdenum to Italy with you, also.

H.M.Jr: Well, you are coming at 10:30.

White: Well, I thought you wanted me to be at the TNEC at 10:15.

H.M.Jr: Give it to Merle.

White: That is all.

H.M.Jr: And Harry, have you got that thing mimeographed now on gold?

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White: Yes.

H.M.Jr: Can I have that, too?

White: Yes. I will see that you get it today.

H.M.Jr: Anything else?

White: No.

H.M.Jr: George?

Haas: I have nothing but this routine report.

H.M.Jr: Well, you will come down with all of the papers this morning. They come down between 10:00 and 1:00, all that stuff.

Haas: All right, I will get it. There is one figure there, I think we have the latest one, the steel figure, which I think is quite important.

H.M.Jr: Up?

Haas: Yes.

H.M.Jr: Anything else?

Haas: That is all.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Harold, there is a fellow coming in today from the Ladies Home Journal who wants to do a detective story. Did you know about it?

Schwarz: No.

H.M.Jr: Well, when he gets here sometime around 11:00 I will have you both in. There is a man and woman editor of the Ladies Home Journal and they stayed at the White House for two or three days and I met them. To pass the time at a dinner I told a couple of detective stories and she seemed to like them and she sent a man down here. I will turn them over to you and Irey.

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Dan?

Bell: Nothing.

H.M.Jr: What we are doing, Dan and I, and I think it is the way to handle it, we are going to first write the Secretary of the Federal Reserve Board. If anybody has any difference of opinion - and ask them whether this person - ask them for the complete correspondence between Eccles and Mr. Glasser and ask them whether this is the opinion of the Board or Eccles and then we will decide afterward what to do. I think also at that time we are going to incorporate - draw to the attention of the Board that when they publish things like Dr. Goldenweiser's stuff on gold, they might show it to the Treasury first.

White: I have some objection - I haven't seen the letter, but I would like to read it. I don't like the tone of this thing. I would like to read the letter and give it more thought.

H.M.Jr: Well, you will have to work fast, Harry.

White: When was the letter published?

H.M.Jr: It is in this morning's papers.

White: What is the hurry, won't we have a day or two?

H.M.Jr: The hurry is I am going to handle it in my press conference. I am not going to let Eccles talk about purely Treasury matters and get away with it, that is all there is to it. I am sick and tired of it.

White: One must draw a distinction, Mr. Secretary, between purely Treasury matters and matters which, though they are Treasury matters, are so broad and so fundamental that they affect all those who are concerned with general economic and monetary situations. I haven't seen the letter and I don't know what he said, but I am a little bit disturbed, Mr. Secretary, about that.

H.M.Jr: Let me read you one paragraph, will you? All of this cooperation stuff is a two-way thing.

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"The Treasury's working balance today is approximately one billion six. Tentative estimates made in our statistical division indicate that without any new finance the balance would not fall less than a billion at the end of the present fiscal year," which is incorrect. "...and maybe somewhat more if the sales of so-called baby bonds continue at the present volume at which they have been selling of late. I understand that prior to the advent of the present Administration it was not customary to keep working balances in excess of 250 and 300 million." Why is it his business to be writing things like that?

- White: I concede that, but I don't think it is the sort of thing that ought to be given the opportunity to the papers again to build up and make much of and could easily lead to that. I think something could be done --
- W.K.Jr: The town isn't big enough, Harry, for the two of us. That is all there is to it.
- Sell: You say you are going to say something at your press conference?
- E.L.Jr: I am going to say along the lines that we have talked, that in view of Mr. Eccles' talking out of turn - but by now I am used to it.
- Schwarz: That is if he is talking for the Board.
- S.M.Jr: Or for himself. I mean, I am not talking about how to regulate the Stock Exchange on the model T, or whatever they call it, or this or that or the other thing.
- White: I should be inclined to ignore it, Mr. Secretary. I wish you would reconsider it in your press conference. I don't mean ignore it through some other channels, but not that one.
- S.M.Jr: This is more important than going up on the Hill. Get the letter. You have got between now and 4:00 o'clock.

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White: Yes, I will read it between now and then.

H.M.Jr: I am just fed up on it. You can't have two schools of thought as divergent as the one I have and he has expressing Treasury opinion and contrary to what is in the President's budget message.

White: I can appreciate the situation completely and I agree with you that he should not, probably, have said what he did, although I don't know what he said, but I think it is a very different question than the one I am raising and I don't know if I am the only one that feels that way. If I am, I want to keep quiet. But it appears to me that you have stood so much up to now that I shouldn't like to see you reopen the subject and give the papers a chance again to make what they have previously. After all, there has been a lot of work you have done to sort of quiet that down or at least you have cooperated to the extent that --

H.M.Jr: Listen, I had four members of the Board in here and talked to them. In the room were Bell and the four members and Hanes and myself. I asked him if this thing couldn't stop. Within two hours, Bob Kintner had everything that took place in the room.

White: I think that merely emphasizes what I say. They are just looking for something.

H.M.Jr: Why does Eccles give it to them?

White: The more unwise he is, it seems to me, the more --

H.M.Jr: Why does he continue to give it to them? If the President of the United States says that the working balance should be permitted to go down to what --

Bell: One billion one fifty.

H.M.Jr: What business is it of Mr. Eccles' to say in previous Administrations they let it ride at 250 to 300, the inference being that that is what it should be?

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- White: I am not raising that question. I am not attempting to defend his position. I don't think that statements of that kind should be made when there is conflict. The thing I am concerned with, I shouldn't like to see anything said which will give the press and the columnists and others a chance to rebuild again the sort of thing that they love, which is that there is a fight going on within the monetary authority of the Treasury against the Federal Reserve Board, or Morgenthau against Eccles, and they will make much of it and you don't know where it stops. I think there are other ways, probably.
- H.M.Jr: This other group didn't hesitate to have me write to Senator Norris that I thought the SEC should take it, this Associated Gas, and nobody thought it was necessary to submit it to Mr. White.
- White: That is a little different. This business between the Federal Reserve Board and Treasury has a long background and if this hasn't already stirred it up, a reaction on your part for the press will stir it up further. If I am alone in that opinion --
- Gaston: I agree with Harry.
- Schwarz: Maybe, Mr. Secretary, instead of talking out of turn, if our attitude is the "so-what" attitude --
- White: I would just shrug my shoulders and say, "See Eccles." I wouldn't dignify his comments. It will give the feeling that it puts you on the defensive. I don't say I would let it stop there, necessarily. I think there should be an appropriate occasion after the thing cools down a little to have a clearer understanding of criticism of Administration policy by men who are presumably together behind the Administration, but I think that is a different kind.
- Bell: Didn't you have in mind that if they raised the question at your press conference, you were just going to say we were studying it?

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- H.M.Jr: That isn't what you said when I was having my --
- Bell: Yes it was, that we were studying it. We were going to study it. We were not going to answer it in the press conference.
- H.M.Jr: I said I wouldn't answer it in the press conference.
- Bell: Yes.
- H.M.Jr: But it doesn't keep me from saying it is typical of Eccles.
- Bell: Well, it is typical all right, but there isn't any question about that.
- H.M.Jr: Why should he have all the fun?
- White: Well, I don't think you will get fun out of that sort of thing.
- H.M.Jr: Well, I do when I am excited. I have got to let go somewhere. Well, I will think about it. I know Jake wants me to go after Eccles.
- Viner: No, I don't, not that way. I want you to go after him because I think it is very bad administrative practice and hurts the Administration's efficiency, but I think it would hurt it still more if you were to carry on your fight in the open, at least until you have tried to see if you can't solve the problem from the inside. I would say, object as strenuously as you can to that procedure, but within the Administration as part of the cleaning up administrative processes.
- H.M.Jr: Do you believe that it is possible to change him?
- Viner: Well, I think you still have to try.
- H.M.Jr: That isn't an answer to my question.
- Viner: What I would do is, I wouldn't protest to Eccles. I would protest to the Federal Reserve Board. Make it a formal protest to the Federal Reserve

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Board against a statement coming from the Board. I take it for granted it comes from the Board. Let them explain that it doesn't and disavow it.

Bell: First we have got to find out whether it is a Board matter or just a person.

Viner: I wouldn't do that. I would assume that a statement by the Chairman of the Board is a statement by the Board and let them say that it wasn't, but I wouldn't handle it at a press conference. I wouldn't say you are studying it, because that sort of suggests that he has given you food for thought, but I would simply say that you have nothing to say.

Schwarz: You can kid him along a little bit out in the open, I think.

H.M.Jr: I have just been reading "The Nazarene". There is something in there about offering one cheek and then the other.

White: I don't think this is quite the same thing.

H.M.Jr: All right, let's adjourn. Harry is out of order on two counts.

All right, bring in the Bank of America. The meeting is adjourned.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 26, 1940

TO Secretary Morgenthau
FROM Mr. Haas *EA*
Subject: The Business Situation,
Week ending February 24, 1940.

Conclusions

(1) While business indices have recorded further declines during the past week, additional signs have appeared which suggest that this setback is likely to be of short rather than long duration. Current indications of a strengthening undertone may be largely of a seasonal nature, but they seem sufficiently numerous to lend distinct encouragement to the belief in a relatively short business decline.

(a) Early reports from steel producing centers indicate that steel activity may hold steady this week, following last week's slackening in the rate of decline. Reinforcing this tendency is an upturn in United States Steel orders to 52 per cent of capacity, from 35 per cent the previous week.

(b) Automobile production last week expanded unseasonally to 102,670 units, from 95,050 units the previous week.

(c) The volume of copper buying increased markedly last week to the highest weekly total since last September.

(d) Sensitive commodity prices in recent weeks have shown stability despite the business decline. Copper prices have been increased, and steel scrap prices show signs of firmness.

(2) Our basic business indices for January show sales of manufactured goods at an FRB index equivalent of about 119, while the basic demand index was reduced to 113, due to a decline in demand for steel. These compare with an actual FRB index in January of 120. New orders received during that month were sufficient to support the FRB adjusted index at about 109, without allowing for the influence of unfilled orders, which remain relatively high.

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(3) Since the trend of commodity prices is likely to play an important part in the timing of the next business upturn, the rise in prices abroad in recent months may become significant in our business outlook. The effect of such factors as foreign currency depreciation, scarcity of supplies abroad, and shipping difficulties, however, make the foreign price situation difficult to appraise in terms of its effect on United States prices.

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Business strengthens as spring approaches

During the past week, additional evidences of a strengthening business undertone have appeared, which tend to indicate that the business decline now under way is likely to be of short rather than of long duration. However, the longer-term significance of these developments is somewhat obscured by the seasonal business trend, which is normally rising at this time.

Of most importance is some indication that the seven weeks' decline in steel activity may be approaching a halt. New orders reported by the United States Steel Corporation last week increased to the equivalent of 52 per cent of capacity from 35 per cent the previous week. The decline in steel output moderated last week, and reports from some steel centers suggest that output schedules for this week may show little, if any, further decline. A sustained improvement in the trend, however, would require a further increase in steel orders in coming weeks, of which there is yet no conclusive indication.

Automobile output last week was stepped up more than seasonally to 102,670 units, versus 95,050 the previous week. Some companies have been forced back to a five-day week, owing to an unusually good retail demand for both passenger and commercial cars. A strong improvement in demand for commercial cars and trucks is reported from both domestic and foreign sources.

A renewed expansion in copper buying last week carried the total sales of refined copper to the highest total of any week since last September. Trade reports indicate that new orders for copper products booked by manufacturers in the past

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two weeks have kept pace with the buying of refined copper. Shipments of copper to domestic consumers, though down sharply in January, remain at the highest level since 1933 with the exception of four other months. Foreign purchases of finished and semifinished copper products have been increasing in importance, and are estimated in some quarters at about 25 per cent of current business, as compared with about 10 per cent at the end of 1939.

Business downturn well discounted

An encouraging feature of the present business situation appears in the fact that the decline in industrial production has been taken for granted by such a large section of the business community that it has had very little unfavorable psychological effect. Reports from purchasing agents in the Detroit area to the Iron Age showed no appreciable increase in hand-to-mouth or thirty-day buying during January. A large proportion of purchasing agents -- 73 per cent -- continued to maintain a coverage of two to three months ahead, and the proportion buying six months ahead was but slightly lower than in December.

An indication that the business setback has been well discounted -- provided no new unsettling development occurs -- appears also in the firmness of stock prices and sensitive commodity prices in recent weeks in the face of sharp declines in steel output and in other indices of business activity.

Basic indices show diverging trends

Our basic business indices, on the whole, show a slight weakening during January, such as usually accompanies a sharp business decline. A weakening in demand for steel during January reduced our composite index of basic demand to the equivalent of 113 for the FRB index. (See Chart 1) On the other hand, the index of sales (lower section of chart) indicates that the offtake of manufactured goods during January increased to a rate equal to an FRB index of about 119. These compare with an actual FRB index of 120 in January. Considering both indices, it appears that the FRB index in February has dropped somewhat below the present level of underlying demand, partially correcting the moderate maladjustment that developed in the last quarter of 1939.

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The composite index of new orders increased very slightly in January. (See Chart 2) Even though sharply below the level of earlier months, new orders in January were sufficient to support production at a level of about 109 for the adjusted FRB index. To this influence must be added, of course, the sustaining effect of unfilled orders, which remain high in various industries. Our approximate index of unfilled orders (lower section of chart) declined somewhat in January, but remains substantially above the estimated pre-war level.

New orders so far in February have averaged lower than in January, but have held for three weeks at a steady level. (See Chart 3) During the most recent week steel orders have increased noticeably, but this increase has been offset by a downturn in new orders for textiles.

Structural steel and lumber orders well maintained

While heavy construction awards so far this year are 22 per cent below the comparable 1939 figures, the volume of structural steel orders in the past three weeks has been maintained above the levels of both 1939 and 1938. For the week ended February 20, new orders for fabricated structural steel, plates, steel piling and reinforcing bars totalled 30,835 tons, versus 24,005 tons in the same week last year.

New orders for lumber (see Chart 4) have likewise been maintained above last year's volume, while residential awards have declined. For the week ended February 10, lumber orders showed less seasonal decline than in the same period of 1939, and were 10.1 per cent above the total for the 1939 week. Residential construction awards for the first half of February, on the other hand, averaged 9.6 per cent lower than in the same period last year.

Price rise abroad may affect outlook

Since the trend of commodity prices may be expected to have an important influence on the trend of industrial orders during the coming months, the price rise that has been under way abroad since the outbreak of war looms as a potential factor in our business outlook.

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In various countries abroad (as indicated in Chart 5) commodity prices in December and January continued sharply upward, rising to above the peak levels of 1937. One commentator mentions that prices in Great Britain have risen more in 5 months of this war than they did in 15 months of the World War, despite strong-official efforts to avoid price inflation. From the end of last August to the end of January, the Economist index of general commodity prices in that country rose 31 per cent. Reuters sensitive price index, containing a limited number of commodities (including various raw materials subject to some form of restriction), rose 22 per cent in that period.

To what extent the rise in prices abroad is due to factors that need not raise prices in the United States, and to what extent it reflects influences that will tend to increase prices here, is difficult to determine.

Irrespective of price trends abroad, the indications from various quarters that war buying in this country is increasing suggests that an important price-raising influence may be already in operation, the effect of which may temporarily have been nullified by reduced industrial buying accompanying the business setback.

Export figures for January, both for this country and Canada, reflect the increased volume of buying from abroad, though obscured by seasonal factors which tend to restrict exports in that month. According to the Annalist, the adjusted index of United States exports in January was the highest since March 1930, while the adjusted index of exports from Canada in January was the highest of any month since April 1929.

Retail sales slightly lower

The adjusted index of department store sales declined slightly in January, as did the index of variety store sales. (See Chart 6) This may have reflected in part the widespread unfavorable weather in that month, as well as the slackening in general business activity and factory employment.

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Rural retail sales in January, on the other hand, reached the highest level since March 1929, according to the adjusted index of the Department of Commerce. (Lower section of chart) These sales in recent months have closely followed the trend of farm income. In December (the latest month available) farm income was 14 per cent higher than in the same month of the previous year. Rural retail sales in December exceeded those of the previous year by 15 per cent.

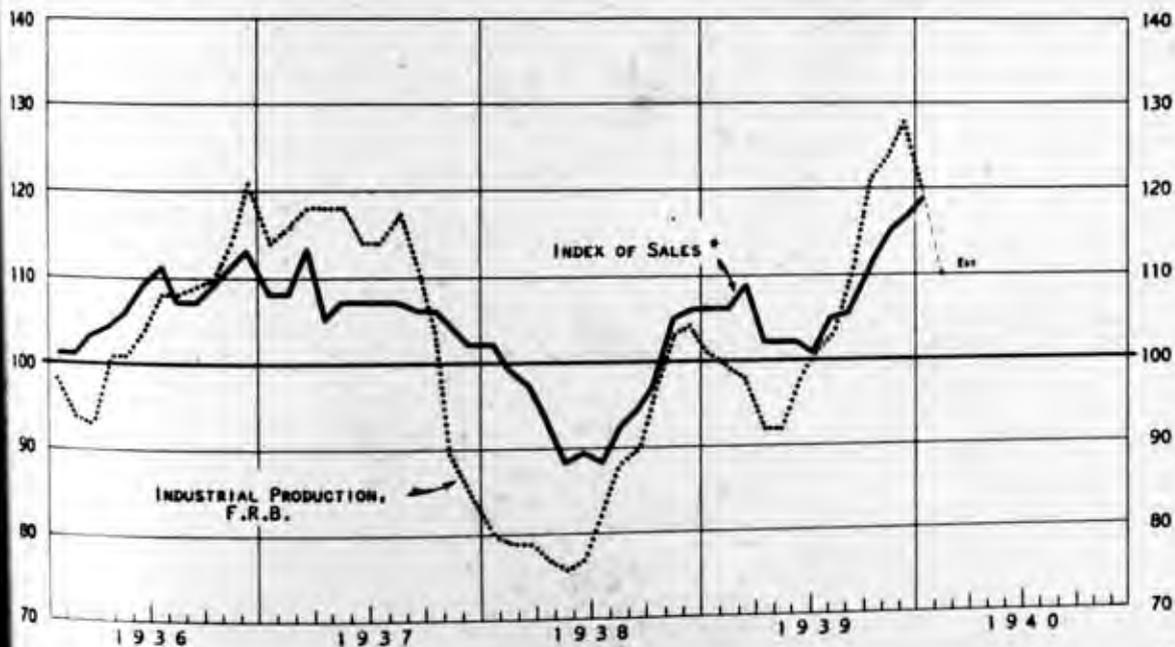
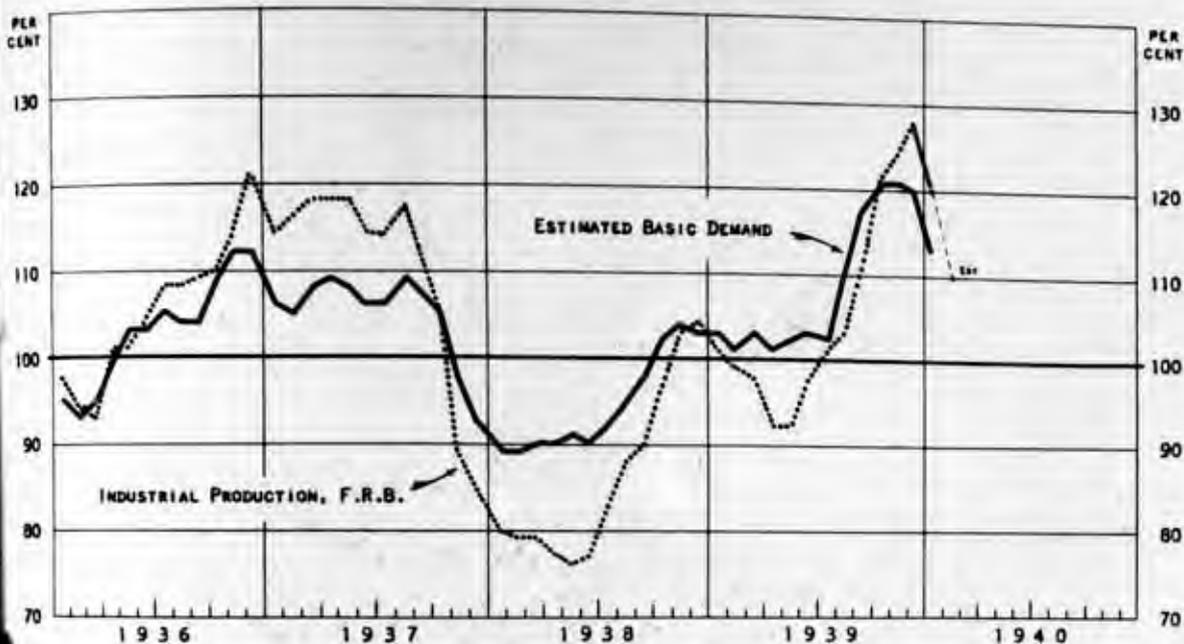
Current business trend continues down

The New York Times business index dropped 2.0 points further to 96.6 during the week ended February 17, with all components lower except for a slight rise in the index of lumber production. Preliminary data for the following week indicate a slight further decline in the steel production index, and a substantial increase in the index of automobile production.

INDICES OF BASIC BUSINESS TRENDS COMPARED
WITH INDUSTRIAL PRODUCTION

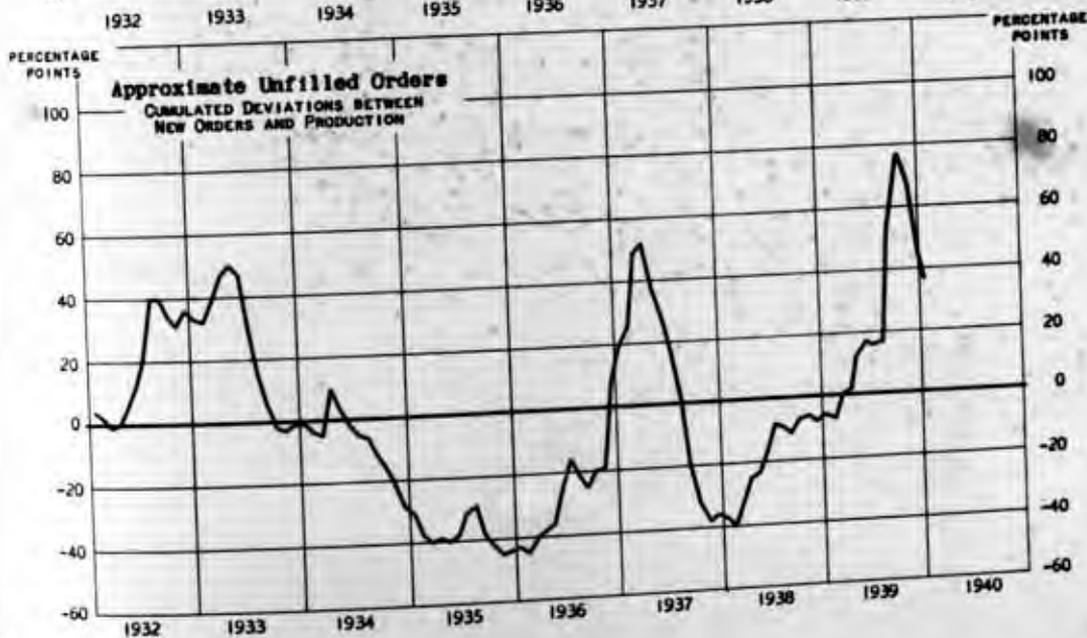
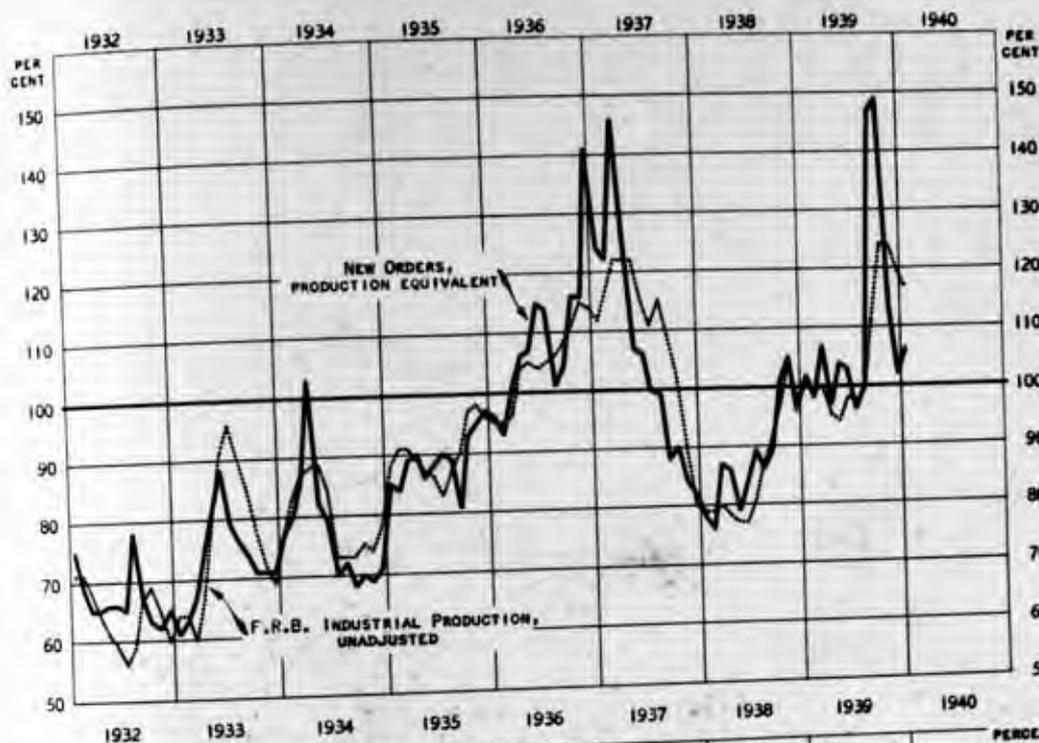
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1923 - '25 = 100, SEASONALLY ADJUSTED



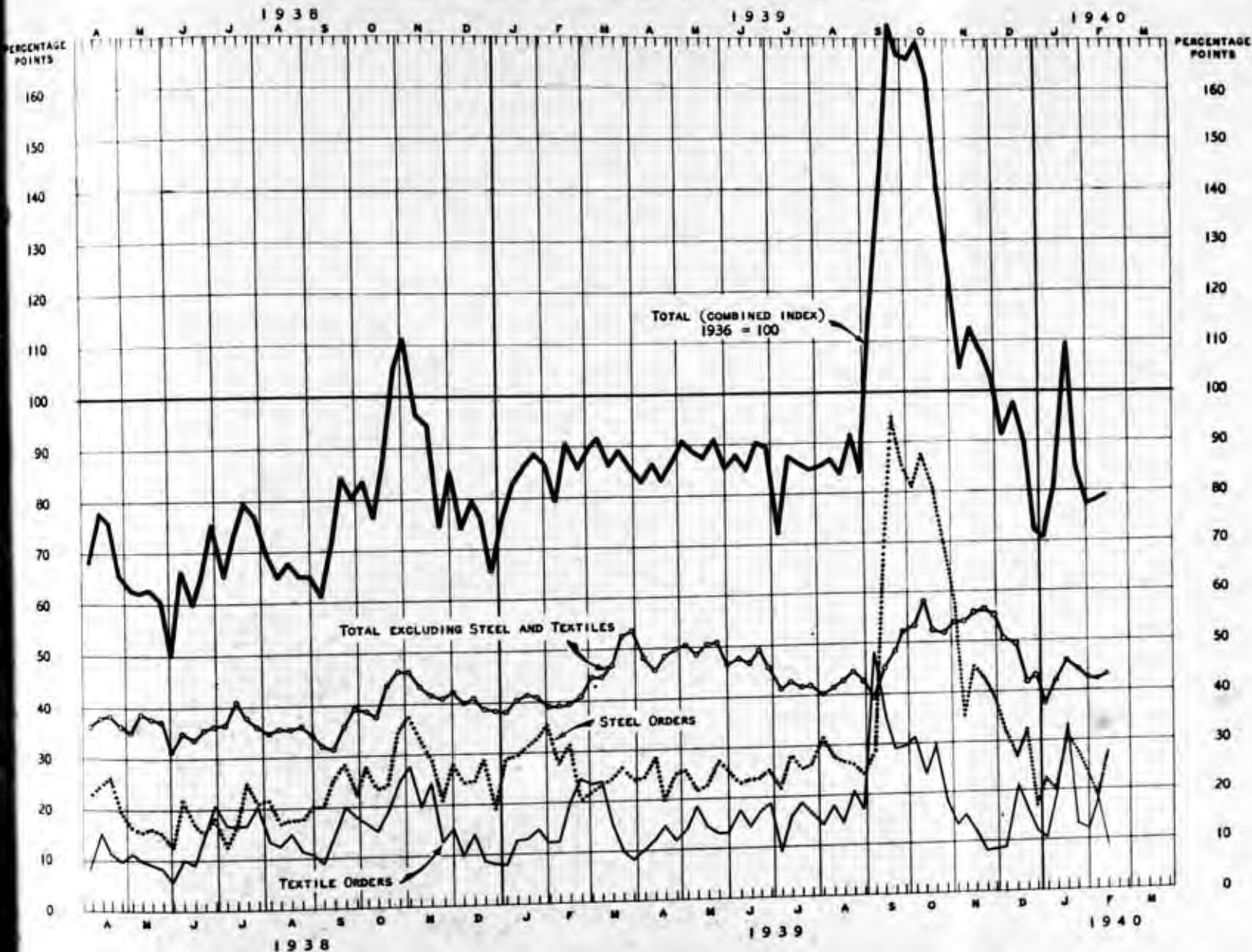
* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION
SHOWING APPROXIMATE UNFILLED ORDERS
1923 - '25 = 100



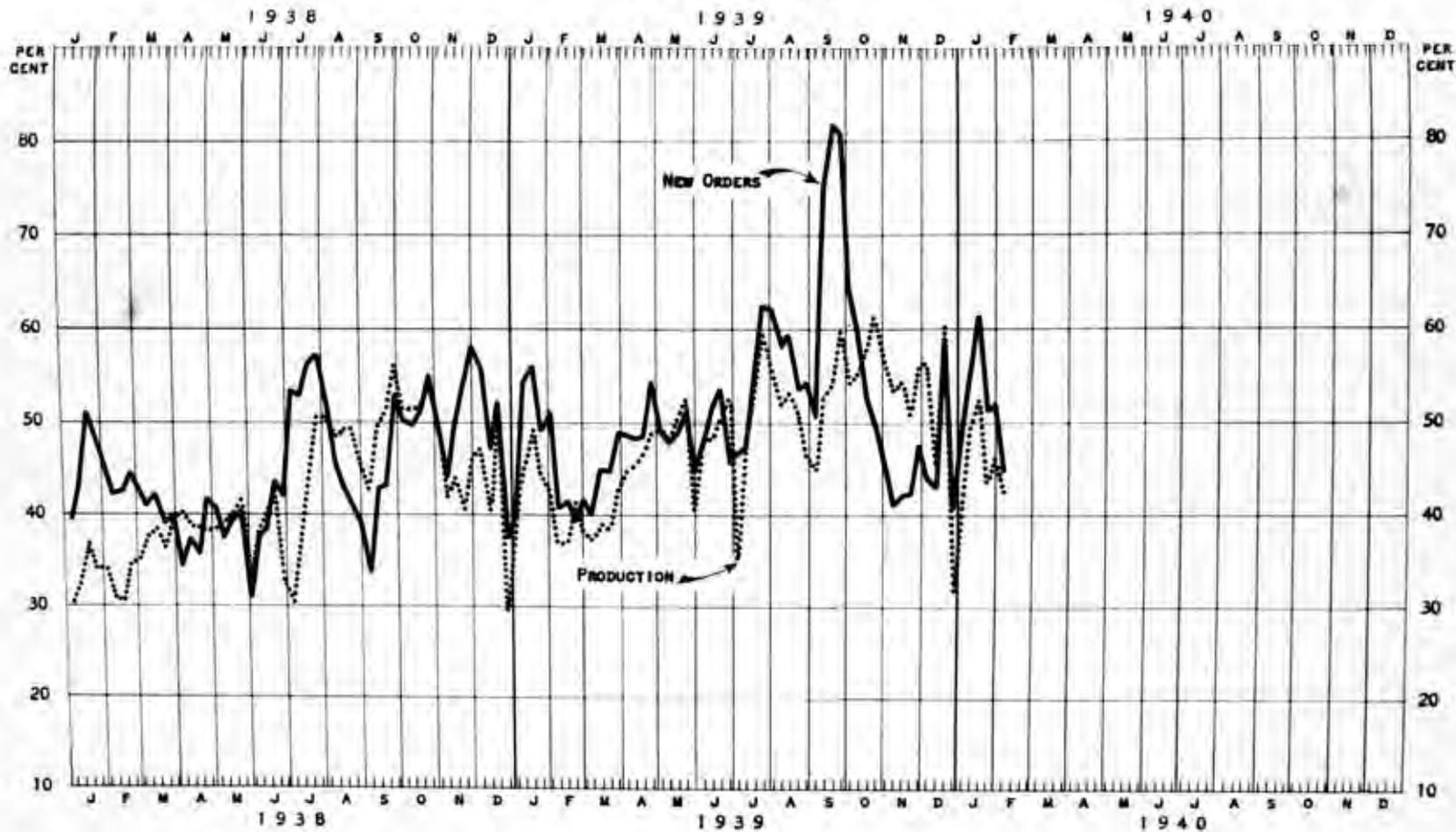
INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



PRODUCTION AND NEW ORDERS OF LUMBER*

1923 - '25 = 100



*BASED ON FIGURES FROM LUMBER MANUFACTURERS ASSOCIATION

Office of the Secretary of the Treasury
Division of Resources and Statistics

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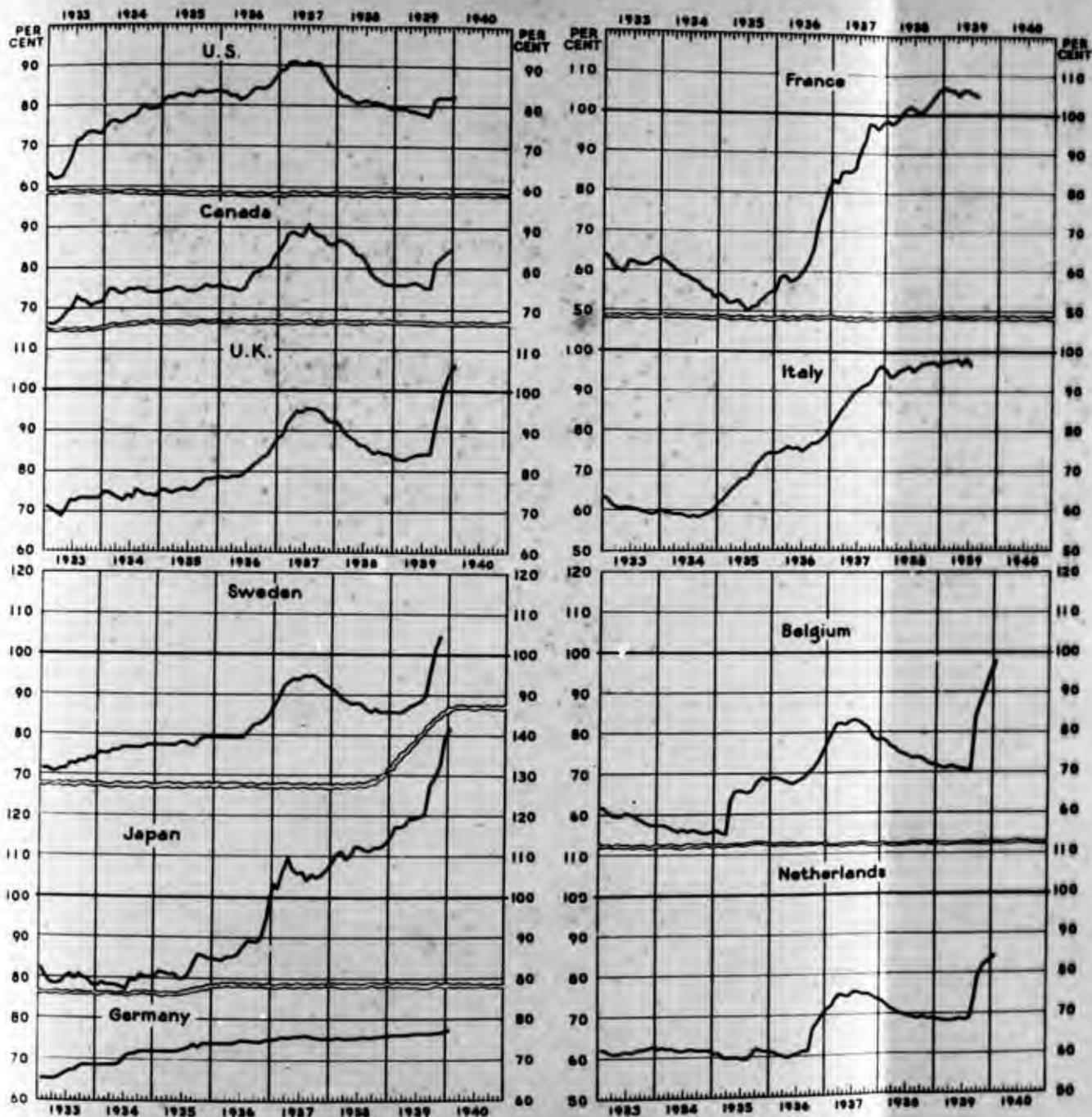
Chart 4

WHOLESALE PRICES IN SELECTED COUNTRIES

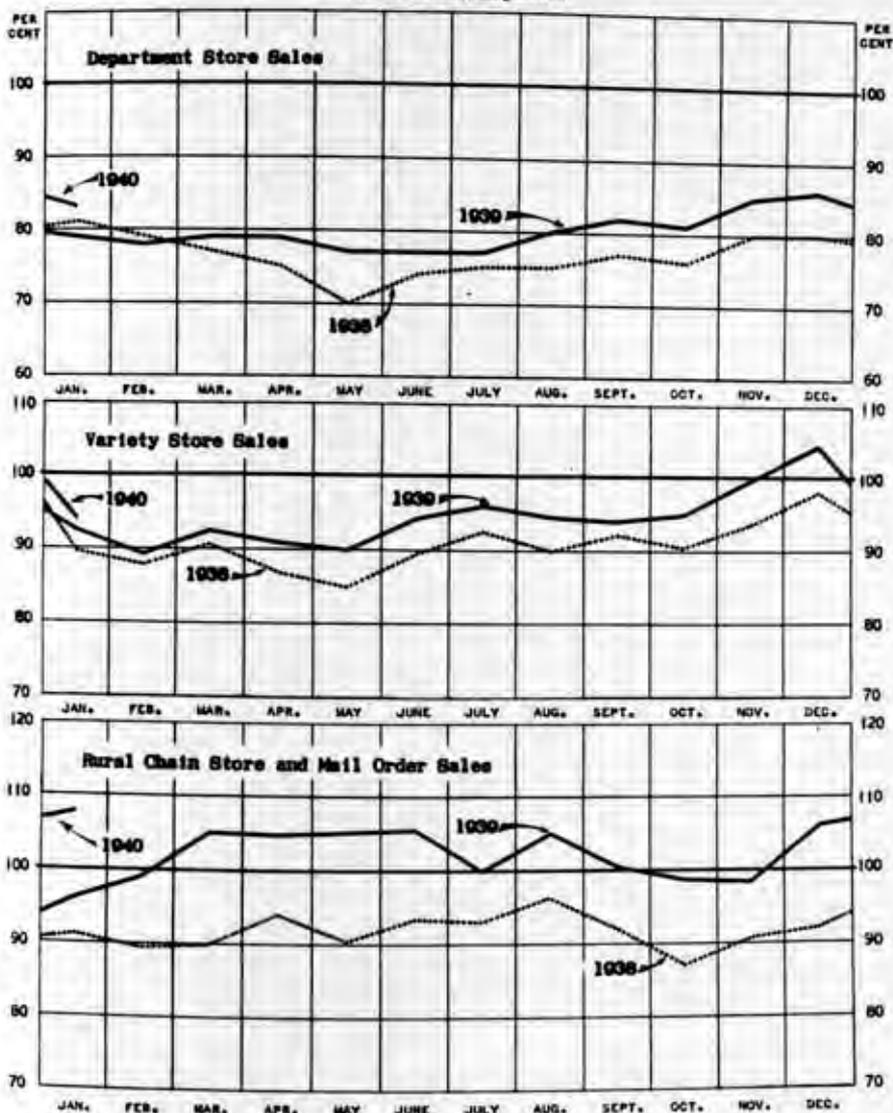
1928 = 100

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Chart 5



RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted



February 26, 1940
11:38 a.m.

HMJr: Hello, Ros.

Roswell
Magill: How are you this morning?

HMJr: I'm all right. How is your wife?

M: Why she's coming along all right, Henry. I intended to write you about it but I have been very busy.

HMJr: I see.

M: As I said, she had to -- I think I said to McKay she had one of these repair jobs.

HMJr: Oh.

M: And it occurred on Wednesday. She was feeling pretty miserable for a couple of days but she's coming along very well now, I think.

HMJr: Yeah. Now -- well, is there a chance for you to come down here for a day?

M: Yes, I think -- I think I probably could. I will - I'd want to take another look at it but I think I can make it all right.

HMJr: I tell you what I have in mind, Ros.

M: Yes.

HMJr: We're having a great big fight here with the Allies in regard to closing agreements. Hello?

M: Yeah.

HMJr: And Sullivan is taking the position, and he may be right.

M: Yeah.

HMJr: But I'd just like to have you sit down and listen to him and then tell me whether you think he's right or not. It's terribly important.

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M: On closing agreements?

HMJr: Yes, with American plants who have to expand, you see.

M: Oh, yes.

HMJr: To take Allied orders.

M: Yeah.

HMJr: You see?

M: Yeah. Well -- yes, sir, I would be glad to do that. Let me see, the -- the best day would be Friday, I guess.

HMJr: Well.....

M: Is that too late for you?

HMJr: No, this argument is going on, and on, and on.

M: I can't quite hear you, Henry.

HMJr: This argument is going on for a long time.

M: I see. Well then Friday would probably be all right?

HMJr: Well, we'll make it Friday. I would have liked to have had it a little earlier but Friday is all right.

M: Well, I have classes except tomorrow. I have classes on Monday, Wednesday and Thursday.

HMJr: I see.

M: So Friday would be, I guess, the best time.

HMJr: Well, we'll make it Friday.

M: All right.

HMJr: I mean, it's a question -- he feels very strongly on this and I -- I'll arrange for you to argue with him in the morning and then see me at lunch.

M: Yeah.

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HMJr: See?

M: Yeah.

HMJr: How's that?

M: Well that's fine. Then you.....

HMJr: I'll make the arrangements here.

M: You don't -- well, I suppose I may as well come down on the night train though anyway.

HMJr: Yeah. Well, I think you'll take most of the morning to discuss it.

M: Well, why don't I come down on the night train, then?

HMJr: And then go to his office right away.

M: Yeah. I'll -- I'll see -- you want me to see Sullivan?

HMJr: Yeah, I'll arrange for that.

M: And I'll see him the first thing Friday morning?

HMJe: That's right.

M: All right. How's everything with you?

HMJr: Fine.

M: Well, it will be nice to see you again.

HMJr: I'll like to see you.

M: And -- I'll be glad to have a chance to give you any help I can.

HMJr: Right. Well, I'd like to have you listen to him and then tell me what you think.

M: Yeah. Well, I'll be glad to. All right, thank you.

HMJr: Thank you.

M: Goodbye.

February 26, 1940
2:35 p.m.

Adolf
Berle: Hello, Mr. Secretary.

HMJr: How are you?

B: I hope you had a good vacation.

HMJr: What it was, was very good.

B: I hope -- I hope what you had of a vacation was a good one.

HMJr: It was.

The reason I'm calling is there seems to be a misunderstanding of a very simple matter. When you were here, oh -- several weeks ago, I gave you a group of cables in regard to the Brazilian debt.

B: That's right.

HMJr: In a little blue folder.

B: Do you want them back?

HMJr: I'd like to have them back.

B: I'll see that you do get them back.

HMJr: That's what we've been trying to get out of your secretary.

B: Oh, I'm sorry I didn't realize what -- what it was, but I have them and I'll see that you get them back at once. I've kept them under lock and key with the single exception of the Secretary.

HMJr: Well, they're made up of cables we received from you.

B: Yes, I know.

HMJr: But it's just the order and the only set I have.

B: Right. Mr. Secretary, I wonder sometime in the next few days you'd have -- you'd have a couple of moments

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to spare. There are one or two things that have come in here that since Mr. Welles is away I should like to chat with you about, if I may. I don't know that they're too important so they needn't be first on your mind, but I'd like to at least keep you advised.

HMJr: How about tomorrow afternoon?

B: Tomorrow afternoon would be first rate. When would you like to make it?

HMJr: 3:30.

B: 2:30?

HMJr: No, 3:30.

B: 3:30 - first rate. Let me also say - I am writing you a letter likewise, but let me say personally that now that the Inter-American Bank thing has gone at least through the first round I wanted to give you my own thanks for the very splendid cooperation your men gave and more especially Mr. White. Those fellows worked like "niggers" on that job and the fact that it did work out quite smoothly I think is very largely due to that fact and I, personally, am very, very much obliged to them.

HMJr: Well, I'll tell them.

B: As I say, I'm writing you that for the record but I should like to say so to you personally.

HMJr: Thank you. (Conversation fades out.)

B: Very well.

HMJr: If you bring that over with you tomorrow it's time enough.

B: Is that all right?

HMJr: Yes.

B: All right, I'll do that. Otherwise, I'll send it.

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HMJr: No, no, bring it.

B: Fine. All right.

HMJr: Thank you.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 3 o'clock this afternoon the Secretary received, by appointment, Mr. M. Rousseau, General Cashier of the Bank of France, who came to New York in December to open the special account of the Bank of France with the Federal Reserve Bank of New York to take care of French war purchases in this country.

Mr. Rousseau is returning to France on Wednesday, February 28, to resume his duties in the Bank of France. Mr. Martial, junior officer of the Bank of France, has arrived in New York and has been broken in by Mr. Rousseau to succeed him. These representatives have an office now close to that of the French Purchasing Commission. Mr. Rousseau explained that the account was apparently working with entire satisfaction, and assured us that all French Government payments were going through it.

Mr. Rousseau stated that he might return to this country if the French decided to take title to American dollar securities owned by their nationals, and desired to dispose of them on this market. For the present, this matter is still uncertain, since France has not even completed a census of such holdings. Mr. Rousseau asked the Secretary how this business should be handled on our market, when the time comes. The Secretary explained that the British procedure had worked in a generally satisfactory manner and recommended that a similar procedure be followed by the French.

Mr. Rousseau unofficially let the Secretary know that he intended to report to the French Minister of Finance upon the question of commissions granted on French official purchases made on the American market. Rousseau explained that it had been customary in the past for French firms buying in this country to receive from the exporters a 15% commission. Sometimes the purchasers organized an American corporation into which this commission was paid. The present practice, Rousseau reported, is for the American exporters to retain 5% for their own expenses, and to let the 10% go to the French buyers.

On this point, the Secretary remarked that he was aware of at least one American manufacturing concern paying 5% commission to its own export concern, owned by it. He thought this reasonable. On the other hand, he severely condemned the practice of intermediaries making profits out of war contracts. He had recommended the purchasing of war materials on this market by the French Government itself with one important aim of this policy being to eliminate commissions. He saw no reason why commission agents in France should collect on purchases actually made in the United States by official buying agents of the French Government. Mr. Rousseau evidently was unhappy over what he may think involved the French agents now in this country pocketing commissions, and intends to report this matter upon his arrival in Paris. He also complained about French men of military age being in this country with the purchasing commissions.

H.M.R.

February 26, 1940

10:30 a. m.

Present:

Mr. Purvis
Mr. Cochran
Mrs. Klotz

HM, Jr: How are things?

Mr. Purvis: I was just wondering if you had heard anything about the arrival of Professor Rist and Mr. Gwatkin. I understood they were arriving tomorrow. Bloch-Laine is sick in bed and I did not ask him the origin of his information, but I have not had anything direct, but I spoke to Monnet that day and he seemed pleased.

HM, Jr: Mr. Bullitt spoke to Mr. Monnet yesterday and I understand all arrive on the steamer this Friday.

Mr. Purvis: The news I had was Tuesday. Now it's Friday?

HM, Jr: He said all of them, Plevin, Jacquin, Rist and Gwatkin.

Mr. Purvis: Capt. Collins will not be back -- no chance of interfering with his holiday. He's run down and needs a vacation.

HM, Jr: My informant is Bullitt who got it yesterday from Monnet that they are all coming on the same steamer that arrives this Friday.

Mr. Purvis: That gives me what I needed.

HM, Jr: Always glad to tell you about your associates!

Mr. Purvis: They are not allowed to cable anything.

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I could have gotten it if I had telephoned Monnet. Monnet will say a lot of things over the telephone that no censor would pass in a cable.

On that airplane program, I have traced this Herald-Tribune fellow to his lair. Do you know who it is? It is a man named Taylor of the Aeronautical Society. He's responsible for the article that appeared while you were away and we only found that out yesterday afternoon. He's at 729 15th Street, very near to our office and he has apparently twice, acting on the receipt of certain information, he has deliberately thrown this kind of monkey wrench into it.

HM, Jr.: If you are going to talk on that, do you mind if I have my man come in who handles that?

Mr. Purvis: Not at all. I would like to get this bird, because I think if anybody could hurt the program, he could, the way he's going at it.

HM, Jr.: That does not check with our information. We will tell you what we have.

Mr. Purvis: I got that from Sir Louis Beal. I had him in as public relations man.

HM, Jr.: He said it gets to Taylor?

Mr. Purvis: Here's his note which came, a very secret message to me last night. As a matter of fact, I think an article or two like that would be sufficient, with London a little jumpy, to change their minds.

(Mr. Schwarz came in at this point.)

HM, Jr.: Mr. Purvis was just kind enough to tell me what he knows and you tell him quite frankly what you know.

Mr. Purvis: Here's the note I got from our man yesterday, who finally traced it, he thinks he has traced it. He said two weeks ago the Herald-Tribune ran an article which referred to Allied buying being

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a menace." On Friday night our release reached the Herald-Tribune man in New York. (It was our second attempt. We went from here and wrote one. Beal was here, which was fortunate. We handed it to him and I had him in on Friday because nothing appeared in the papers. However, we got it in on Saturday.) "Through the Associated Press it reached the Herald-Tribune Information Bureau in Washington. The Aviation Editor in New York and the representative of the Herald-Tribune in Washington immediately consulted a man named Taylor, connected with the Aeronautic Chamber of Commerce, at 729 15th Street. The opinion expressed by the Herald-Tribune was that of Taylor. I do not know as yet if he has an official position with the Aeronautic Chamber of Commerce. I am pursuing further inquiries."

Mr. Schwarz: I have heard of the man.

HM,Jr: Tell Mr. Purvis your story.

Mr. Schwarz: We were naturally concerned about the story. I got a call late Friday night saying that there was one announcement and what was the other? And here came the Herald-Tribune story and I talked to the Herald-Tribune man who covers the Treasury and he said it was not his story. Then he talked to his office and called me back yesterday at home and he said he was told it came from somebody in the Embassy, not one at the top and not the financial representative, but somebody who had discussions with the Mission and he said further that they were sure, felt sure, that their source was correct.

Mr. Purvis: Will you do something for me? Everything is possible in a strange world. Would you mind chasing up this Taylor end. We will chase it up too. But nothing could be more likely to finish the prospects of a program than some man pecking away, because, after all, he started pecking and it's pecking us. It does not matter a tenth as much to you if we get tapped like that. It's an indirect tap.

HM,Jr: The Tribune man has never lied to us. Tell Mr. Purvis about Havas.

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Mr. Schwarz: Havas called also to ask, after the Tribune story appeared, to ask if there was any basis for it and we said as far as we knew there was no basis for the Tribune story, but it apparently had come, represented itself at least, as coming from people related to the Mission and not from us. I said I did not see what basis there was for it. And then he said, "Well, the important thing is for us to get planes. How about that?" I said, "That's a dealing between your folks and the plane people." Then he did say further that he had heard that some of the plane manufacturers themselves, and that's why it is interesting to mention the Aeronautic Chamber of Commerce, he said some plane manufacturers themselves were uttering criticisms and were asserting that they had discussed it with you folks, whereas I believe Mr. Bloch-Laine or some other person had told the Havas man you had not.

Mr. Purvis: We have not had any discussions since the recent meeting in this room and only did so when the machine tool question was up, on February 7th. We did not meet them after that. Capt. Collins did all about the rearrangements on options. No, I tell you, if you read the Tribune article carefully there isn't any question, it seems to me, but what it comes from the industry in the main. And of course I read it simply as a trading article in order to improve their trading position and I think it's very unnecessary because that's not the spirit we are entering on it and I think it will only tend to spoil the deal.

H.M., Jr.: The thing that bothered me, Mr. Purvis, was in the part where to referred to a tax matter. It was so close to expressing your views that that's what disturbed me. You see?

Mr. Purvis: Well, really, Mr. Secretary, I am very worried about that, but as for taking any move that would prejudice my chances of getting it settled I am not so foolish. On the other hand, you know as time passes a situation like that becomes known to more and more people. For instance, the Hercules Powder

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people are constantly at us. You see, they regard us as having been the ones who failed. Now, I don't know who they talked to. I presume they are reasonably careful, but, on the other hand, any people who feel as strongly as they do they can't do what we ask and knowing they are held up completely and when they are held up completely there are various channels. Since you left we have had quite hard going. We can't accept defeat on that. We have had to go without the powder. What we did immediately was to get two lawyers of the Mission together and get them to get legal talent to come talk with Mr. Sullivan here and Mr. Bell to see what foot room there was for further moves and those have been going on in good order between those three sets of lawyers and Mr. Sullivan saw them. Some progress is being made. I refuse to have any hope in this thing now and yet we are actually pushing, inch by inch and pushing Hercules down the lane, I think. Now, whether we will ever get them to the point when we can meet the situations, but what they are now exploring is Mr. Sullivan in talking with our tax lawyers indicated why he had been so much against closing agreements as distinct from a ruling, and we gathered principally that it was because Hercules appeared to push in that agreement a great deal of improper stuff. We immediately climbed on Hercules' back and tried to stop that and yet we are in the unfortunate position, it's the only place we can get the powder. They did finally meet us half way and I think now there is a chance that their lawyers, who are drafting an agreement with ours such as they would accept, there is a chance Mr. Sullivan may be able to agree to it. That I don't know, but that's for him to say, but that's what we get from our lawyers. I have not been back to Mr. Sullivan yet.

HM, Jr: Chic, you use whatever ingenuity you have to see if it does come from the Aeronautic Chamber of Commerce. We naturally can't go to the Embassy and wouldn't.

Mr. Pinsent: I think we might be able to scout around.

Mr. Schwarz¹: Have any of the Aeronautic people been to the Embassy?

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Mr. Purvis: That I don't know. I only got this last night. We were puzzled, because, after all, every other paper took our thing as it stood.

Mr. Schwarz: All I asked them was how true was this story and they said "We are satisfied it's a good story" and then Gregory went ahead and told what he knew about it.

HM, Jr: Has Gregory ever lied to you?

Mr. Schwarz: He's been perfectly above board. It's not his story.

Mr. Purvis: First I suspected one other possibility and that was the machine tools makers, who know about the tax thing, might be turning against it, but I decided after reading the article closely that wasn't the case. Mr. Sullivan asked me to do the best selling job with the machine tools to accept a ruling and I think we have succeeded, but I think they might have heard the Hercules story and got it from them.

(At this point Mr. Schwarz left.)

Mr. Purvis: I am very sorry about that, because frankly I think it is very much against our interests in every way and the previous article which came out ...

HM, Jr: And the fact it is the Herald-Tribune gives it a partisan tinge.

Mr. Purvis: It's another chance to fight and dig with any stick we can find. We are trying to be as careful as we can.

And to go back just a moment, we are, as I said, we are worried about the tax. Another three weeks have gone and though, as I say, we think we are driving Hercules inch by inch and we still hope Mr. Sullivan may be able to accept what they are moving to, we don't know it and it's going to be, in any case, depend on one thing: whether Mr. Sullivan will be able to say that kind of a closing agreement we can do, because Hercules

have dug their toes in and said they can't as far as the other is concerned. What I am afraid of is it is a precedent and we don't dare sign that contract with an unknown liability depending upon Congressional action in another country. We don't dare. One precedent would be disastrous, as you pointed out on the 22nd of December, and another thing, I think it would create something of a bad situation at home.

HM, Jr.: Mr. Sullivan is not here and I am not up on it.

Mr. Purvis: I don't want to worry you about that. I have something else.

HM, Jr.: Mrs. Sullivan has just presented him with an eight pound baby boy so maybe the world looks different.

Mr. Purvis: The other thing is, on the powder situation, I just wanted to say this: We have now lost so much valuable time on this order that that shortage of 2,000 tons that resulted from the Waltham Abbey explosion is becoming of major seriousness and I am pursuing this line -- I talked with Capt. Collins before he left, but it was not necessary to hold him -- I am talking to Admiral Speer today at his suggestion. We are wondering if it would be possible to have the powder makers, if you are not short of powder; it's not the kind of thing one gets very short of -- if they could work with us for two or three months and then take later deliveries back again. It's merely a question of changing specifications slightly so I intend to take that up in regular channels.

HM, Jr.: I would go through regular channels and see how far you get.

Mr. Purvis: But I am going to press it rather urgently because I have little feeling now that, if Mr. Sullivan is willing to go forward a little way and if we could afford to wait just a little longer we might get Hercules into a situation where we could break through.

Coming to essential materials, can we cover one word or two on that?

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The Rist and Gwatkin visit. I thought if I could get a general line as to how we might try to handle any discussion on essential materials. I mean, what I should avoid and what I should try and do there. They come, of course, to discuss contraband and all this kind of thing at the Embassies.

HM, Jr: At the Embassies?

Mr. Purvis: Yes. You see, the cable said they would be attached to the Embassies for contraband control purposes and they discuss contraband control with them but with the understanding that any discussion in regard to essential materials would depend entirely upon them. They would be available to meet

HM, Jr: I would suggest this: That you have a talk with these two gentlemen on essential materials; find out what they have in mind; then you and I meet first.

Mr. Purvis: Yes, I think that's right.

HM, Jr: We meet first after you have had a chance to see them. That gives me a chance to say, "Well, I could take this up" or give me a chance to talk to the President and say "How far do you want me to go in this matter?".

Mr. Purvis: I found myself going back to the first principles and wondered if the passage of the trade treaties had eased the situation and then I find it had not.

HM, Jr: I think the thing to do would be find out from them on essential, critical war materials what they have in mind. Then you and I sit down, talk it over, gives me a chance to think it over and possibly discuss it with the President.

Mr. Purvis: In that case I think I will leave certain of these points and talk with you a little later on the broader aspects of it.

HM, Jr: And, incidentally, you may be interested to know -- I have not got the figures here, but Mr. White informs me -- let me read what he has here. Well, for your information, and you got this "from the air"...

Mr. Purvis: Yes.

HM, Jr: January 1939 we shipped \$62,000,000 of molybdenum to Ital. January 1940 we shipped \$90,000,000.

Mr. Purvis: Dollars?

HM, Jr: Dollars?

Mr. Cochran: Thousands, not millions.

HM, Jr: Yes. Thousands. Thanks. February, nothing, ~~xxx~~ in 1939, and in the first two weeks of February 1940, \$221,000.

Mr. Purvis: That confirms -- that gives the figures on the same information that has been worrying our people and on which we have cables.

HM, Jr: Total for last year was \$409,000.

Mr. Purvis: Yes. That's what they feared that the nations contiguous to Germany are now beginning to sharply increase. What one can do

HM, Jr: We can't do anything.

Mr. Purvis: That becomes a question of contraband control.

HM, Jr: You have Gibraltar. That ought to be useful and for heaven's sake remember you heard it over the radio.

Mr. Purvis: Yes; quite.

There is one subject on molybdenum which is a little more urgent and that is the question of what can be done with Climax and other producers here in order to

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take care of what they are doing. After all, you made the first suggestion and they fell in with it. We then went back, at your suggestion, to the other side and said "What can you do to tone up consumption in 1940 in order to justify their cooperativeness?" You remember at that time it was believed the molybdenum consumption in Great Britain and France for a year was between 7,000,000 and 8,000,000 pounds. Now they have made some progress and estimate now that they will actually consume 9,000,000 pounds this year in Great Britain.

HM, Jr: Wasn't that figure 10,000,000?

Mr. Purvis: That was a different figure. That was what Climax would like us to formalize contracts for. You remember the maximum put in each contract was 11,000,000 pounds from all the producers for the two countries. Now, then, the estimate which I gave to you, the one which has not been handed to Climax, but for your personal information, when I brought in the secret figure of 7,000,000 or 8,000,000 pounds actual consumption, and that was the problem, the difference between the two, and then Climax came to us and suggested "if you could formalize contracts for 10,000,000" there being three main consumers, the Riverdale, (second name not understood) and then Comtour Molybdenum in Paris and the idea of the 10,000,000 pounds is that Comtour takes about four-fifths of the French thing was they were in effect asking us, they said they will collect the balance of one million pounds from France in orders. In effect it means that the full maximum of contracts of 11,000,000 pounds was what they would have liked to see formalized. My understanding is the thought underlying that, if it did result in some small measure of stocks at the end of 1940, it would enable them to take care of their stockholders during this year. That was put over.

HM, Jr: When you say "put over" you mean postponed?

Mr. Purvis: No. I cabled that to London saying "What can you do along those lines?". Now, the 9,000,000 pounds is what they come back with. They

have been able to raise consumption, they feel, in the two countries to 9,000,000 pounds, which brings it within the realm of a possible arrangement along the lines suggested. They have suggested, however, this: you asked the concession from these people and they made the concession and you also asked us to try and find out some counter-effect concession. They asked if it would not be better to show what can be done, otherwise would it not be better if there is anything to be done as a concession to them for it to come from the source which asked the concession from them?

HM, Jr: I would rather have you tell that to them, and then if I don't hear anything from them I take it they are satisfied.

Mr. Purvis: That's the way you would rather have it?

HM, Jr: I would rather have it. It's your dish.

Mr. Purvis: Yes.

HM, Jr: And I would rather have you serve it. If they don't think the helping is big enough, then they come back and say, "Well, now, we thought we were going to get a bigger helping than that" but if we don't hear from them I would rather -- I appreciate your offer to let me hand it to them.

Mr. Purvis: I feel that's the correct course, but you would rather keep out of it.

HM, Jr: As much as possible.

Mr. Purvis: Then there are one or two difficulties I would like to get your advice on. It's easy to deal with Climax, because I can deal with Hochschild. There is also the question, any arrangement we make must be similar in background with this which was with the producers of molybdenum in this country as a whole. That creates problems with us

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and may be even legal restriction of output. That also is very much in mind and anything that is done would be done the other way.

HM, Jr: Supposing you try it.

Mr. Purvis: A preliminary talk with Hochschild, just working over the ground, otherwise, as I get our cabled advices, our people are anxious to explore a way of getting to it. They feel this, it appears in the cable quite definitely, that insofar as those quantities that were shipped to Russia and Japan were obviously built up stock purposes; that they did not represent real annual business. Nevertheless they can see Climax' side of the picture.

HM, Jr: I would rather you talk to them and if I don't hear, I take it they are satisfied.

Mr. Purvis: If I run into the other jam

HM, Jr: I am always here.

Mr. Purvis: Do you think this: You have no objection, I take it, to our making the point with them that the countries contiguous to Germany are becoming very important.

HM, Jr: Yes, you can do that; I can't.

Mr. Purvis: Yes; quite. That is, as a matter of fact, as good a reason as any for the other course.

HM, Jr: Better. Now, for your information, we had a rather amazing incident happen on a shipment of molybdenum to Russia. We watch these boats as they were being loaded. They were putting on 50 tons.

Mr. Cochran: 400 drums.

HM, Jr: 50 tons of molybdenum, which was Utah Copper Company molybdenum, but was sold to a concern by the Utah in Connecticut.

Mr. Cochran: Yes. Whipple and Choate.

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HM, Jr: Whipple and Choate. You might look to see if you have any contracts with them. Whipple and Choate, of Connecticut. Mr. Gross is President.

Mr. Purvis: And that is being shipped?

HM, Jr: I guess it did, but there was another two shipments of 50 tons each and when we drew -- the State Department did this at our request -- the attention to the Utah Copper they were very angry because they had a written contract to sell 150 tons to Whipple and Choate for their own consumption and so specified. When they learned that they were acting as agent for Amtorg, which it proved they were, the Utah Copper had diverted the shipment which was en route.

Mr. Cochran: Diverted one and held up the other; said they would not ship the last.

HM, Jr: So they were very good about it. So that avenue is closed. It may be that 50 tons got through, but we found that Amtorg was using Whipple and Choate as their buying agents.

Mr. Purvis: That brings me to this thing: that the Canadian Minister, who has been very cooperative, by the way, with me in handling anything here -- the Royal Canadian Mounted Police came along with a perfectly amazing story based on the idea that Jules Bache was the Amtorg agent and had been expelled from France at some previous point in his career.

HM, Jr: I have a lot on Jules Bache on the Amtorg business.

Mr. Purvis: Really?

HM, Jr: Oh, yes!

Mr. Purvis: Because the thing as it comes from Canada is information has been received from^a secret but most reliable concern that Amtorg is buying immense quantities of copper in New York. Understand they have acquired entire output of Molybdenum Corporation, molyb-

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denum being a strategic material (that's wrong) United States naval authorities are looking at this matter with great care. Chief agent is one Jules Bache who it is reported was deported from France in 1917 for undesirable activities."

HM, Jr: Jules Bache is all mixed up in this sale of copper through Mexico.

Mr. Purvis: He is, is he?

HM, Jr: Oh, yes! And I think he's got direct telephone lines which he put in to Mexico and we have been watching that too, but there isn't much we can do about it, but at least we know Jules Bache is very active.

Mr. Purvis: Yes.

HM, Jr: Just a second. (Referring to a report on his desk.) Again this is highly confidential. I think Jules Bache is confining himself to buying the copper that the Amtorg needs.

Mr. Purvis: "Buying from dealers and direct from producers; consumed (?) large quantities from Anaconda and American Smelting and Refining" is the story.

HM, Jr: He's very active. This particular report does not show it, but the American Smelting is one of the people. American Smelters are the principal purveyors of copper and Jules Bache, we have not been able to run down just where, but he does enter into the picture.

Mr. Purvis: Yes; quite.

HM, Jr: But not in molybdenum.

Mr. Purvis: No. You would not credit the molybdenum ...

HM, Jr: I know it is not so.

Mr. Purvis: Yes; quite. That, as a matter of fact, worried me much more.

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HM, Jr: Fifty tons got out and we actually see each boat loaded and we have a man there as the boats are being loaded, anything that's going to Russia, and that's how we caught the 50 tons and then the day we caught it we traced it to this concern in Connecticut, but that's all and that was Utah Copper. And their man was very much exercised and, as I say, he stopped the 50 tons which were enroute and cancelled the other 50 tons.

Mr. Purvis: Yes. Yes.

HM, Jr: But his contracts said specifically for domestic consumption.

Mr. Purvis: So it was possible to put control on it.

HM, Jr: Yes. But the Jules Bache thing, if you get anything more on that I would like to know.

Mr. Purvis: I would like to put another piece of information on the table and that is that the negotiation to purchase molybdenum from Norway is being pushed hard. It's not quite concluded, but involves 500,000 to 600,000 pounds which the Allies feel they have to get.

HM, Jr: How much is the amount?

Mr. Purvis: Between 500,000 and 600,000 pounds.

And chrome and colombium.

HM, Jr: Am I right? Greece produces chrome?

Mr. Purvis: Yes and we have that under control. We have the chrome situation in hand, and the other really I think is more under your fingers than anybody's. Chrome, colombium and tantalum. You are the big buyers of those ores. I was going to ask if anything had come in on that?

HM, Jr: Unfortunately, Mr. White had to go on the Hill, but you (Cochran) might check up on those

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particular metals.

Mr. Purvis: You are the principal importer of the ores and what we are very anxious about is re-export. Chrome is apparently quite a key position and the Germans' stocks look to be lower than any of the other essentials. Therefore, if we can keep the lid down there it might be very important in trying to shorten things up.

Now, having had Canada in mind -- Christie, as I said, has been extremely cooperative and he's under instructions, of course, to advise, work with, the State Department, but he asked me, knowing of our talks on nickel, he gave me a copy of a memorandum which he was giving the State Department which he felt you should know. That's for your file.

HM, Jr: Can I take a minute and read this.

Mr. Purvis: Yes, because it brings us up to date on nickel.

HM, Jr: (Reading the attached memorandum.)

What this sizes up to, what I think they are thinking of doing is allowing Japan 4797 tons.

Mr. Purvis: Which they feel would be absolutely safe

HM, Jr: ... as against 11-1/2 thousand tons ...

Mr. Purvis: ... that they asked for. They asked for 11,000 originally and then there is talk of 7,200 and I see there they are considering 4,000.

HM, Jr: Has that been settled?

Mr. Purvis: I have not seen Christie since last week. That's my latest. However, I can get further information on that if you --- we have not, as a matter of fact, I have been hoping there, after all we started with the idea of trying to work out something. I am holding our people along the line and I really feel if

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we can prevent re-exportation here it would not be difficult to arrange for any assurance necessary that where military necessities or military needs can be used as an excuse, the Empire should not use materials abandoned here which I understand is one of the worries in your mind opposite the molybdenum people.

HM, Jr: It is now tentatively contemplated. I wish you would tell our friend, Christie, this: If they could, well, hold off doing -- they don't -- they are all right for March, aren't they?

Mr. Purvis: I got them to ...

HM, Jr: But they go into the second quarter. I would like to have an opportunity to show this to the President because he's particularly interested in this thing.

Mr. Purvis: Yes. And I think you could accompany that with the indication -- I mean, our line of approach is necessarily different from yours.

HM, Jr: I understand.

Mr. Purvis: We have to work on the basis of domestic needs or military necessities interfering with doing anything, because after all, as I get it from our people, the first thing is war effort. We must win the war. And we have to keep our hands free along that line because moves in war become more difficult, but there is no intent really, we can make the excuse of domestic needs or military necessity to permit Empire sources to become the means of substituting for something you avoid getting out of this country.

HM, Jr: I appreciate that, but from this thing they say no further export pending -- all I am asking is, the President will be back on the 3rd. Give me a day or two.

Mr. Purvis: Certainly.

HM, Jr: And I would like to show him this. I

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will get right on to that, because he's interested in this thing. You see?

Mr. Purvis: Yes; quite. Then there is one other problem of essential materials which should be discussed now and that is in cobalt. You remember that was just suggested in a cable originally as being a difficult problem and one on which they would be cabling me later. It is apparently quite an important item. Japan, we found recently, was asking cartel for 1200 tons. They used the excuse that that is used in the production of scientific gasoline by the Fisher Tropshe process, which is synthetic gasoline from cobalt. The request, however, we found was prompted by a local German firm in Japan, Ahrends, and our people are a bit suspicious because Japan's imports have risen from 235 tons in 1937 to 620 tons in 1938 and 820 tons in 1939 and they now are asking for 1200 for 1940, which will be an increase of almost five times in the three years. Also, any information we have as to their gasoline producing capacity makes us feel that those quantities are disproportionate. I have had two cables since you have been away. Rohkana is the bigger copper producing company, Union Miniere which is the Belgian, and then there are the French, Finnish and Canadian interests. The Belgians are the influential people who can force a decision a little bit one way or the other and that was the snag in getting it blocked. However, they have finally agreed, owing to combined activities of the others, to limit demand to 400 tons of cobalt metal for 1920 and from 100 to 120 tons of cobalt oxide which is the average of the last three years. Now that is the best they could get the Belgians to do and there are some cobalt stocks here and I thought I would put it on the table that on December 9th there was 410 tons of cobalt metal and 176 tons of cobalt oxide and I just mention that in case you wish

HM, Jr: Who owns it?

Mr. Purvis: It's in the hands, I think, of consumers here. I perhaps could get some more on that, but I thought you could watch that.

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HM, Jr: Is that a by-product of copper?

Mr. Purvis: A plain metal ore. For instance, Cobalt, Ontario, was grown up on that. It's an alloy; has alloy value.

I think that's all I am going to -- oh! dyes, industrial dyes. One more memorandum which I think might be of interest. Here is your copy. It shows what we are trying to do and the defects of it and strength of it as we see it at the moment.

HM, Jr: Right!

(At this point, Mr. Purvis asked that his remarks being off the record. It referred to the unfavorable press England has been getting on the incident in the Norwegian waters and the Bermuda air censorship and he expressed the fear that his people were becoming sensitive and are pressing him.)

HM, Jr: I know perfectly well what you are saying. It isn't very effective with me.

Mr. Purvis: I am not trying to press you. I appreciate your frankness.

HM, Jr: Do we understand each other?

Mr. Purvis: Absolutely. I have worked on this assumption -- am I right? -- always lay my cards on the table.

HM, Jr: Right.

Mr. Purvis: If there was a little feeling like that I sense, I would better mention it to you.

HM, Jr: I think I told you that I don't respond to pressure very well. You can understand.

Mr. Purvis: Oh, absolutely! Because I don't either. They are pressing me a little harder.

HM, Jr: That's their privilege.

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Mr. Purvis: And I am delighted for them to do it.

HM, Jr: I think you will get much further with me if we stay on exactly the same basis that we are on.

Mr. Purvis: Which I am thoroughly contented with.

HM, Jr: The only reason I sent word to you by Pinsent about the article in the Tribune, I felt that that was the kind of pressure, which to use the expression "would get my back up" if it came from Embassy sources. Let's say it did.

Mr. Purvis: Yes.

HM, Jr: That it was, as we call it, "a planted story".

Mr. Purvis: I would deprecate it thoroughly.

HM, Jr: That's the wrong way to stroke me. I don't want to be stroked. Want to be just the way we have. But through the papers is absolutely the wrong way to handle me.

Mr. Purvis: I hope you realize

HM, Jr: I do.

Mr. Purvis: I will do everything to prevent anything of that kind being done.

HM, Jr: I don't see how -- under the circumstances, you are dealing with neutral nations. I am doing something completely out of my field and taking great personal risks. I don't think your Government would get anything more from anybody in Washington.

Mr. Purvis: I am appreciative of that, as you know; very appreciative, and I will certainly do everything in my power to

HM, Jr: And Ambassador Bullitt appreciates it too. He's been here a week or ten days and knows what the

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situation is. But we are getting along very well and I am more than willing to keep it just as it is.

Mr. Purvis: On the other hand, it's better for me to say a thing like that because I am proceeding on the ground of "cards on the table".

HM, Jr: It's all right to report it as long as you don't put it into use.

Mr. Purvis: I promise. You may be sure of it.

oOo-oOo

COPY.

STATEMENT SHOWING THE CANADIAN EXPORTS OF NICKEL TO JAPAN AND TO THE
UNITED STATES: DURING THE CALENDAR YEARS 1929 TO 1939

<u>Calendar years</u>	<u>Japan</u>		<u>United States</u>	
	<u>Cwt.</u>	<u>Value</u>	<u>Cwt.</u>	<u>Value</u>
1929	4,566	\$ 172,696	778,189	\$17,347,846
1930	2,130	79,323	508,866	11,915,186
1931	2,236	75,228	296,863	7,007,471
1932	3,705	130,064	165,344	3,924,189
1933	6,363	268,076	419,023	9,995,125
1934	17,724	799,909	500,152	12,080,198
1935	17,456	665,907	668,037	16,117,522
1936	28,821	1,223,677	942,310	22,583,514
1937	101,342	4,053,712	950,235	22,679,764
1938	153,992	6,047,749	518,036	12,385,745
1939	233,107	8,797,024	1,149,826	28,743,453

February 20, 1940

*see Bureau letter 43-10-40
over this*

White House

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TENTATIVE PROPOSALS FOR
THE ALLOCATION OF NICKEL EXPORTS
DIRECT FROM CANADA TO OTHER THAN
EUROPEAN DESTINATIONS

In December 1939 the International Nickel Company's outstanding pre-war contracts with Japanese customers totalled 835 tons of nickel. Toward the end of December the Company applied for export permits for two shipments to Japan - one for 400 tons to leave early in January, the other for 435 tons to be shipped the latter part of January for delivery early in February. These permits were granted. However, the second export permit for the 435 tons was later held up and was not issued finally until February 9th, the nickel to be exported to Japan on the SS. HEIAN MARU, sailing from Vancouver February 24th. Thus the delivery of the pre-war balance outstanding has been spread over the first quarter of 1940.

It is now tentatively contemplated that no further export permits will be issued pending the determination of the questions of policy involved.

The Canadian authorities have been exploring the possibility of instituting export quotas for nickel exported direct from Canada to other than European destinations, seeking some principle of allocation which would

- (a) be applicable to both Japan and the United States;
- (b) effect a drastic reduction in shipments to the former country; and
- (c) allow for continuing expansion of exports to the United States for domestic consumption.

An export allocation for 1940 of 150 percent

of the average direct shipments of nickel from Canada to Japan and the United States in the five calendar years 1934-1938 inclusive would allow Japan 4,797 tons and the United States 53,680 tons, as compared with actual exports in 1939 of 11,655 tons to Japan and 57,491 tons to the United States. Allowing for controlled re-exports from the United States to South America and for the nickel content of fabricated exports from the United States for other destinations, it is not thought that the proposed quota would, in fact, result in any curtailment of the quantity available for United States domestic requirements.

STATEMENT SHOWING THE CANADIAN EXPORTS OF NICKEL TO JAPAN AND TO THE UNITED STATES: DURING THE CALENDAR YEARS 1929 TO 1939

<u>Calendar years</u>	<u>Japan</u>		<u>United States</u>	
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TREASURY DEPARTMENT

Confidential INTER OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau
 FROM Captain Puleston
 Subject: Surplus Articles from the Bureau of Ordnance,
 Navy Department.
 Reference attached: Previous Memorandum on
 same subject dated February 19, 1940.

1. I had a further discussion with Rear Admiral Furlong. Negotiations have not yet been concluded for the sale of the surplus ordnance material to Sweden. Rear Admiral Wijkmark, Royal Swedish Navy, is representing the Swedish Government. Negotiations probably will continue today. To indicate the bargains offered the Swedes, the following prices are typical:

	<u>Unit Cost Price</u>	<u>Unit Selling Price</u>
Springfield Rifle, .30 Caliber	\$48.00	\$20.00
Lewis Machine Guns	200.00	50.00
Spare Barrels	6.00	3.00
18-inch Torpedoes, less warheads.	3,000.00 5,000.00	1,500.00
Contact Mines and Anchors in good con- dition---old type.	374.00	35.00

Other articles are in proportion.

2. In addition to offering the old type mines which are very efficient, the Navy offered to make the newest of mines

available after manufacture. Ammunition of all kinds is scarce, but the Navy offered to defer its own deliveries in order to assist Sweden.

Comment: There can be no doubt that the Navy has gone full length to help Sweden on the assumption that this material being made available for Sweden will enable Sweden to pass along these or corresponding supplies to Finland. The real question remaining is how to make sure that supplies furnished to Sweden will reach Finland. This is beyond the province of the Navy Department.

3. Sweden has a well-developed munitions industry and manufactures an excellent anti-aircraft gun known as Bofor's 1½-inch caliber. Admiral Furlong is very anxious to get one of these for experiment and has asked Admiral Wijkmark to obtain one for him. I suggested that we might be able to help him.

W. D. Puleston
W. D. Puleston,
Captain, U.S.N., Retired.

February 26, 1940
3:32 p.m.

HMJr: Hello.

Operator: Secretary Edison. Go ahead.

HMJr: Hello.

Charles
Edison: Hello.

HMJr: Henry Morgenthau.

E: Yeah. Hello, Henry.

HMJr: How are you, Charlie?

E: Pretty good.

HMJr: Charlie, I was curious to know how you were getting along with that sale of surplus of material to the Swedes.

E: Well -- you -- everything but ships, you know. We're -- we're working along with them all right only not on ships.

HMJr: No, there was a list of, oh.....

E: What?

HMJr: There was a list that I saw of Lewis machine guns and U.S. rifles and all that kind of.....

E: Yeah.

HMJr: Which was declared surplus by.....

E: Yeah.

HMJr:Admiral Furlong.

E: Well, there was some stuff that -- that came over from the Army and we just gave release on furnishing design so that they could get a whole list of stuff.

HMJr: No, this is Navy surplus.

- 2 -

E: Yeah.

HMJr: And I may be wrong, but I don't think that any of it is -- has been transferred to the Swedes.

E: No, I don't think any of it has.

HMJr: Ah.....

E: Not of our stuff.

HMJr: No, I'm talking now of Navy stuff. I wondered if any of it was going to be transferred or sold to them.

E: Well, I think any that they want. The last I talked to Bertil about it was that I showed him that list and he was interested in one or two items, and we told him that if he wanted any of that stuff why we could find ways and means of doing it. So I've been waiting to hear from him. Now, somebody else may have heard from him; I can check up.

HMJr: Well, I -- I have no way of hearing except through you, you see, with the President away.

E: Yeah.

HMJr: And I -- I'm -- I was interested and I just wondered if any surplus stuff had gone to any Scandinavian country.

E: Yes. Well, now.....

HMJr: Could you -- could you find out -- would you mind letting me know?

E: No, all right.

HMJr: Whether any Army and Navy surplus stuff has gone to either Norway, Finland or Sweden.

E: Yes. Now I'll tell you -- I'll tell you what I know about it. Bertil, you know.....

HMJr: Yeah, Prince.

- 3 -

E: What?

HMJr: The Prince.

E: Yeah. How do you pronounce it -- Bertil?

HMJr: Just the same way.

E: Bertil.

HMJr: Yeah.

E: Well, he was in to see me and of course he was interested in getting some small boats, that is these motor torpedo boats, and so we're making it -- making it easy for him to find where to get boats. We've put him in touch with the American Car and Foundry and other -- other things. Then there's the question up now with the Finns about getting some boats that we are already building. Now there's in New Orleans the Higgins outfit is building two experimental boats for us now.

HMJr: Yes.

E: And they're very anxious to get those two boats. And Higgins tells us that if we will take a delay of 90 days in delivery they can give us a much better boat. Now we're working that one out, I think, for the Finns.

Now, the question of selling them cruisers or any boats or warships, any Scandinavian country -- in fact, any country, that's just out.

HMJr: Well, but.....

E: Unless it's old junk that's stricken from the Navy list.

HMJr: But these U.S. 30 caliber rifles and these Lewis machine guns.....

E: Yeah. None of those, I'm sure, have been sold, and I called that to the attention of Bertil and he was interested in one or two of the items but that seemed to be all.

HMJr: Well, would you have any objection if -- if we showed that list to Procope, the Finn.

- 4 -

E: To what?

HMJr: To the Finns.

E: No, no. They've seen it, I think.

HMJr: They have seen it?

E: I think so, but it's perfectly all right to show it to them.

HMJr: You'd have no objections?

E: No, no.

HMJr: Well then if -- if you have no objections I'm going to show it to the -- to the Finns.

E: Yeah, all right. Go right ahead.

HMJr: And tell them if they're interested to get in touch with you. Is that all right?

E: That will be fine.

HMJr: Is that all right?

E: Yes. Now, if -- I tell you, I'm sure that that's about the latest word on any of this stuff.

HMJr: Yes.

E: But if I find any different I'll call you, or do you want me to call you anyway. I'll call you anyway.

HMJr: If you don't mind.

E: Yeah, all right.

HMJr: Thank you so much.

E: All right, sir.

HMJr: Goodbye.

E: Goodbye.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

325

INTER-OFFICE COMMUNICATION

DATE February 26, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:15 today I telephoned Mr. Gray in the Office of the Secretary of State. I told him of Secretary Morgenthau's interest in the sale of surplus articles from the Bureau of Ordnance of the Navy Department to the Swedish Government, represented by a mission now in this country. Our information suggested that there was perhaps some delay in consummation of the sales under negotiation. In the absence of Captain Collins, who represents Secretary Morgenthau on the Inter-Departmental Committee dealing with such matters, I was telephoning to see whether there was any delay, and what could be done to help the situation.

Mr. Gray replied that he was not familiar with the question, but would promptly find who in the Department was responsible for the negotiations, and either have that person telephone me, or he would call me back personally to give us everything available.

Mr. Joseph Green of the Department of State called me back at 2:45 this afternoon, stating that Mr. Gray had referred my inquiry to him, since he had to do with armament sales. Green said that insofar as the Department of State was concerned, nothing had happened in regard to the Swedish armament negotiations for the past two or three weeks. He stated that he understood the Swedish officials had been negotiating directly with Secretary of the Navy Edison, who had consulted the President in the premises. Green promised to keep me informed if anything should develop at the Department of State in regard to the Swedish negotiations, but he was convinced that the proper place to turn for current information was to Secretary Edison.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

327

INTER-OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:30 today I telephoned Mr. Pinsent. I asked that, as a personal favor to Secretary Morgenthau, he ascertain in strictest confidence, through cabling London if necessary, the exact status of David Kung, son of H. H. Kung, former Minister of Finance in China. I let Pinsent know that Kung had been in some sort of difficulty in China, allegedly in connection with radio activities, and that his several secretaries had been put in jail and he was being shipped off to the United States to attend Harvard. Pinsent said that he would see if any information was available in the Embassy here on the subject. If not, he would cable London for such details as might be obtained there.

In connection with the above, I have called my friend, Penfield, in the Far Eastern Division of the Department of State to inquire casually whether there had been any recent reports to the Department of State in regard to David Kung. He had seen a press item in recent weeks, but had observed nothing else passing through the Far Eastern Division. Penfield does not know young Kung personally, but understood him to be a "no good". I also let Pinsent know that I had cleared with the Department of State, but that the latter had no information on Kung. Although the Department of State was willing to request a report from our Consul General at Hong Kong, I told Pinsent that we preferred that any inquiry in Hong Kong be made through the British. Pinsent had obtained no information this noon from his colleagues in the Embassy here, except the rumor that Kung had become involved in some way in consorting with the enemy. He promised to get a cablegram off to London this afternoon.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

328

INTER-OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

I talked with the Secretary at 4:20 on February 23, and mentioned that I should reply as early as possible to the inquiry made by Governor Harrison of the Federal Reserve Bank at New York some days ago in regard to the request of a member bank with respect to holding gold under earmark for a private bank in Norway. I telephoned Governor Harrison's office at 4:25 on February 23, but learned that he was in Washington. I did not see the Governor here, so he called me back this forenoon.

I told Governor Harrison that the Treasury was not disposed to deviate at present from its fixed policy of not permitting private banks to hold gold under earmark, or to have an interest in earmarked gold in this country. In answer to the Governor's inquiry as to whether the bank in question could apply to the Treasury for a license, I informed him that this was, of course, possible, but that such a request would be refused in the circumstances. I hoped that the Governor could merely pass on informally to the inquirer the Treasury's position as above indicated, and that the matter would there rest.

I promised the Governor that if at some future time there might be a discussion of extending the use of gold, I would be happy to submit his proposition for appropriate consideration.



TREASURY DEPARTMENT

329

INTER-OFFICE COMMUNICATION

DATE February 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was featureless with the volume of sterling transactions maintained at about the usual level for a full day session. After being quoted at 3.95-3/16 in Amsterdam, sterling moved down in the New York market to a low of 3.94-7/8. On some Japanese buying of sterling, which does not appear in the figures given below, the rate improved to close at 3.95-1/4.

Sales of spot sterling by the six reporting banks totaled £565,000, from the following sources:

By commercial concerns.....	£ 219,000
By foreign banks (Europe and Far East).....	£ 346,000
	Total...£ 565,000

Purchases of spot sterling amounted to £405,000, as indicated below:

By commercial concerns.....	£ 329,000
By foreign banks (South America and Europe).....	£ 76,000
	Total...£ 405,000

The following reporting banks sold cotton bills totaling £35,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 27,000 by the National City Bank
5,000 by the Guaranty Trust Company
2,000 by the Chase National Bank
1,000 by the Bank of Manhattan
<u>£ 35,000 Total</u>

The other important currencies closed as follows:

French francs	.0224
Guilders	.5318-1/2
Swiss francs	.2242-1/2
Belges	.1690
Canadian dollars	13-11/16% discount

Although foreign exchange restrictions became effective today in Sweden, nevertheless, the rate for the Swedish krona was practically unchanged at .2381 bid, .2382-1/2 offered.

The discount for the Cuban peso narrowed to 7-11/16% and the Mexican peso was unchanged at .1672.

The Federal Reserve Bank of New York purchased 70,000 Swiss francs for the Bank of Latvia.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$15,000,000	from the Bank of France
<u>1,000,000</u>	from the Netherlands Bank
\$16,000,000	Total

The State Department forwarded to us a cable stating that the Banque Federale, Bern, shipped for its own account gold valued at \$141,000 to the National City Bank of New York. This gold will be sold to the U. S. Assay Office.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for a license to transfer approximately 32,000 ounces of gold (about \$1,125,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

In a report received from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on February 21, such deposits totaled \$39,770,000, an increase of \$1,830,000 since the last report as of February 14. Of this amount, \$26,197,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$83,470,000, an increase of \$2,504,000 since February 14.

The London fixing price for spot silver was 20-3/16d unchanged, and for forward silver, 20-1/4d, up 1/16d. The U. S. equivalents were 35.92¢ and 35.85¢.

The U. S. equivalent of the Bombay price for silver was considerably higher today at 40.67¢ as compared to 39.77¢ on Saturday.

Handy and Harman's and the Treasury's prices for foreign silver were both unchanged at 34-3/4¢ and 35¢ respectively.

We made eight purchases of silver totaling 509,000 ounces under the Silver Purchase Act. Of this amount 234,000 ounces represented sales from inventory by two refining companies and the remaining 275,000 ounces consisted of new production silver from various foreign countries, for forward delivery.

We also purchased 75,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

B. W. P.

CONFIDENTIAL

Regraded Uclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 73

DATE: February 26, 1940.

Brazil's December balance of trade with the United States was unfavorable. This is probably the first time in history that this has occurred, but it is likely that the new situation will continue for the duration of the war.

CAFFERY

EA:EB

TO THE ECONOMY
TECHNICAL DEPARTMENT
DEPT. OF THE ARMY

26 FEB 28 1940

RECEIVED
TECHNICAL DEPARTMENT

February 26, 1940.

SECRETARY HORSTWITZ

MR. HARRIS:

On June 17, 1935, you directed Mr. Ballinger to make surveys in the Customs Service to determine what could be done to improve its organization and efficiency. During the succeeding 4 1/2 years the Ballinger Committee has, with interruptions on other assignments, completed surveys in the Bureau offices in Washington, of all the customs offices in the New York, New Orleans, and Florida collection districts, and of the Southeastern District of the Customs Border Patrol. The report on the New Orleans district is now being studied and the report on the Florida district has just been received, but disposition of the other reports is so nearly complete that I deem this an appropriate time to give my estimate of the value of the committee's work and a recommendation as to the continuance of such work.

The tangible results of the committee's work are so detailed as to make summarization difficult. By way of illustration, however, Mr. Ballinger made 254 recommendations in the New York survey, of which 208 have been adopted and are in effect as made or with modifications which achieve substantially their objectives, 30 have been withdrawn, and 16 are still pending. As a result of the recommendations, 21 positions at New York were abolished as vacancies occurred and work assignments were so rearranged as to release 87 employees for the performance of duties which would otherwise have required new employees. The survey of the Southeastern District of the Customs Border Patrol resulted not only in the transfer of all its employees to fill urgent needs in other assignments, but also in a similar transfer of practically all the Border Patrolmen stationed at airports on the Atlantic and Pacific coasts. Several of the Ballinger recommendations resulted in amendments of regulations effective throughout the Customs Service.

The outstanding result of the committee's work, in my opinion, has been to establish beyond question the fact that no temporary committee, no matter how long it works, can effectively reorganize the Customs Service on a permanent basis. The problem of efficiency and modernization in this Service is one of such detail and continuing change to meet the ever-changing needs of commerce that a permanent system is required to handle the problem. Largely as a

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result of the recommendations of Mr. Ballinger and his assistants, such a permanent system has now been devised.

This new system is designed to carry on within the Service, on a permanent and continuous basis, the objectives of the Ballinger Committee, i.e., in each customs office, in each collection and other district, and in the Service as a whole to study and improve the form of organization, the methods and procedures used therein, and the kind and quality of its administration to the end that the revenue may be protected and the public well served with the utmost efficiency and economy. The system has been established during the past three years by the careful selection of a number of contact officers and their assignment to duties whereby the Commissioner of Customs and his principal assistants are kept currently informed concerning, and can maintain effective supervision of, all field officers. An assistant deputy and an agent-at-large keep constant surveillance over the Customs Agency Service and the Border Patrol, which are also coordinated through Mr. Irey with the other Treasury agency services; a chief chemist working out of Washington closely supervises the nine customs laboratories; a supervisor of appraisers with two assistants maintains close control over all appraisal activities; a new deputy commissioner specially qualified in business and governmental accounting is in immediate charge of all fiscal and accounting activities throughout the Service; and a carefully selected group of Liaison Officers operate as personal representatives of the Commissioner in the field, making over-all surveys of offices and districts, studying and reporting on general and specific problems, and at all times serving to keep minor problems out of the Bureau by settling them locally and immediately on a basis of standard practice and to bring major problems to the Bureau for disposition before serious difficulties arise.

The last-mentioned group of Liaison Officers was designed and established to take over and continue on a permanent basis the work in the Customs Service heretofore performed by the Ballinger Committee and the Port Examination Commission. In my opinion, it is now able to perform such work just as effectively as the Ballinger Committee, and more expeditiously. If you approve this memorandum, it will do so.

I understand, of course, that you may from time to time in the future assign Mr. Ballinger or some other representative of your office to make some examination of the condition of the Customs Service for the purpose of giving you an independent report with respect thereto.

APPROVED:

(sgd) H. Morgenthau, Jr.

Secretary of the Treasury.

March 23, 1940.

Treasury Department
Division of Monetary Research

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Date February 26, 1940. 19

To:

To confirm telephone conversation:

The Secretary stated over the telephone that Secretary Hull had telephoned him to say that he (Secretary Hull) had forgotten to ask Secretary Morgenthau at Mr. Welles' request, made before Mr. Welles left for Europe, that the Treasury take no action with respect to countervailing duties while Mr. Welles was in Europe.

MR. WHITE
Branch 2058 - Room 208

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Treasury Department
Division of Monetary Research

Date..... 3/1/40 19

To: Miss Chauncey

From: H. D. White

For the Secretary's files.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Oslo

NO.: 25

DATE: February 26, 1940

The Norwegian Foreign Office has announced that Norway has concluded wartime trade agreements with Great Britain and Germany but the agreements will not be published. We are informed that a special financial agreement will be reached between the central bank of Norway and the central bank of Great Britain. This agreement will be similar to the one concluded between Sweden and England. We are trying to secure further information and will cable the Department when there is anything further to report.

HARRIMAN

EA:EB

No. 57 Air Mail

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
February 26, 1940.

SUBJECT: Transportation Routes to China.

The Honorable

The Secretary of State.

Washington

Sir:

I have the honor to refer to my despatches nos. 41 and 45, dated January 11 and 13, reporting my conversations with Mr. M.E. Sheahan, a motor traffic expert, and to my despatch no. 50, dated January 30, 1940, summarizing various reports as to transportation routes from Indochina to China. In continuation of those despatches, I summarize a report which Mr. Sheahan is understood to have made to the Standard-Vacuum Oil Company at Hongkong immediately prior to his departure for the United States on February 9. In the main, Mr. Sheahan's report confirms the opinions and views expressed in my previous despatches.

Mr. Sheahan is not optimistic regarding the possibilities of the Cao bang road, considering this road dangerous and limited from the operations standpoint and vulnerable to Japanese bombing forays. The Chinese Government is, however, continuing to work on this road as a temporary route over which a certain amount of traffic will flow, chiefly to Kwangsi and Kweichow. He is more optimistic as to the Indochina-Yunnan Railway, believing that ample reserves of repair materials at various points along the railway (the materials collected by the Chinese Government from other railways in China and now stored at Hongkong and Haiphong) and improved anti-aircraft at vulnerable points will keep traffic interruptions within a minimum. He is confident that the railway's equipment, much of which is of recent arrival, will enable a theoretical monthly tonnage of about 25 thousand tons - assuming that the railway operates at night and the Chinese Government arranges the loan of sufficient trained men. Mr. Sheahan is not overly optimistic as to the Burma road, mentioning particularly the difficulties of the rainy season and the extremely high cost of transportation. This road should be used for the transportation of purely military supplies (which cannot be transitted across Indochina) and as a last resort, if other means of transportation fail. He considers that the best prospect of increasing the transit of supplies to China rests in the development of a road from the frontier northwards to Kunming, this road meeting the railway at various points and thus being utilisable in the event of railway traffic interruptions. In general, this road will follow the originally proposed southern route of the Indochina-Yunnan Railway - the French have already made the original survey plans available to the Chinese Government and work has started on this road. Its completion is, of course, many months away.

Air Mail

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Mr. Sheahan also mentioned the proposed inauguration of an Aerial Transport Department in the China Transport Corporation, to develop the transport of gasoline supplies by airplane. Inter alia, this proposed undertaking was recently mentioned to me by Mr. T. Y. Chen, General Secretary of the National Control Commission of Liquid Fuels, who remarked that two Condor planes are available for the purpose and that other planes will be purchased. Mr. Chen added that, although the initial transportation costs are higher, there would be the economy of less leakage and loss, these being extremely high (some observers estimate as much as 20 per cent) on road transportation.

Since Mr. Sheahan's submission of the above report, the situation in Kwangsi appears to have changed, although only rumors and rumors confirming rumors are obtainable in Hanoi, and it would seem that the recapture of Nanning by the Chinese is a bare possibility. If this should come to pass, the restoration of the Dong Dang-Nanning might follow, thus solving many of China's transportation problems.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,
American Consul.

In duplicate to the Department (Original by air mail)
Copies to Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunming and Saigon

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CSR:csr

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